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MILITARY

TESTIMONY ON SEA LANE DEFENSE AT DIET REPORTED

Tokyo TOKI NO KADAI in Japanese Jul 83 pp 51-61

[Part II of the Transcript of Four Expert Testimonies on the Problem of Sea Lane Defense at the Special Committee on Security, the House of Councillors, Japanese Diet, on 11 April 1983 (as reported by Chairman of the Committee, Masao Horie)]

[Text] Japan is economically a large country, but a small nation in terms of resources. It depends on imports for most of its oil, food, iron ore, lumber, and rare metals. These are processed and exported to feed its 120 million citizens. What would happen if peace were destroyed and an emergency situation arose? The debate on "defense of the sea lanes" thus has come into close view since last year. However, no concept or specific theory indicates what defense of the sea lanes is, what is to be defended from what, where or by what method. They are only words by themselves. On 11 April, the Special Committee on Security in the House of Councillors (Masao Horie, chairman, former LTG, GSDF) invited four experts as witnesses and discussed this problem. Their opinions differed from the respective standpoints that defense of the sea lanes is not possible, that it is possible and must be done, and that it would be dangerous to do it.

The Fundamental Principles of the Defense Buildup Do Not Match the Present Situation

Diet Member Terata: All of you have commented on defense policy on the assumption that the self defense forces of Japan would be engaged in war with another country, but don't you think that Japan would not suffer a small-scale limited invasion from any nation and that actually it would be a confrontation between the United States and the Soviet Union?

Expert Witness Asonuma: I believe there are a variety of scenarios. However, the fundamental thinking of the so-called military position is consideration of the possibility that the situation will occur rather than the probability of the situation occurring.

For example, even if the probability is small, the position of making sufficient preparation should be taken if the situation to occur is very grave. Advance deterrent has been stated as a fundamental doctrine, but I have four

conditions for that deterrent. The first is the importance of the need for the government and citizens to demonstrate that they have the intention and the determination to fight.

The second condition is having the actual power, and I believe that it should be the power to win or hold out when dealing with any situation. Another thing is an adequate military force. This is very difficult for Japan and after all must be considered as the collective power of the U.S.-Japanese Security Treaty, I believe.

Terata: You have not responded now to the gist of my question. Almost all military critics in hypothesizing an emergency do not believe in the reality of a small-scale invasion such as in the fundamental principles of the defense buildup. Rather, only a confrontation between the United States and the Soviet Union can be considered. Since you and Mr Kaihara have not touched upon that problem, I am questioning you on that point.

Asonuma: I believe that various complications have been created with the fundamental principles of defense planning. A small-scale, limited invasion is also one scenario. At the time, decisions on the objectives of defense were not, after all, apriori decisions and a complication created by the fundamental principles of defense planning is that somehow or other it is to be held to within 1 percent of the GNP. Due to this, it is perceived as a paradoxical decision and accordingly, as a question of probability, I believe it was surely good in an era when detente was greatly emphasized at the time, but I believe that it is necessary that real thinking concerning defense power must carefully consider possibility.

Invasion on Pretext of Assisting the People's Government

Kaihara: I have written several books so far, and also actually said it publicly lecturing as a military critic, but the meaning of "a limited, small-scale invasion" set by the Fundamental Principles is unknown. When I asked a defense attache of a certain country, he replied that probably no country would attack to lose. Therefore, if there should be a military attack on Japan, I believe it is common sense to think that the attack will be made with enough power to eliminate resistance here. I have written about it in my books, but there are two scenarios.

One is the case of a war between the United States and the Soviet Union. There is an attack from the Soviet Union to prevent Japan being used as a base, but I have said that the United States and the Soviet Union will not fight. They cannot fight. That is because they each have massive nuclear war power. If the United States and the Soviet Union were to fight, it would invariably be a nuclear war. I believe they would not do such a foolish thing.

So, what is the second scenario? Insofar as U.S. Forces Japan exist under the present U.S.-Japanese Security Treaty structure, an attack on Japan by the Soviet Union because U.S. Forces Japan are in Japan as representatives of the nation of the United States cannot resolve a U.S.-Soviet war.

Therefore, if I were the Soviet leader, I would first drive out USFJ from Japan. And if the so-called state of security without stationed forces formerly advocated by the Democratic Socialist Party should appear, the economics of Japan would become chaotic and the political situation also would be in turmoil. At that time, a movement naturally would probably appear in the nation of Japan to create a communist Japan. Actually, there are such groups since this is a question of conviction.

So, for example, the group might create a people's democratic government in Hokkaido for the purpose of realizing that communist Japan. This would request assistance from the Soviet Union. In responding to that request for assistance, there would be military assistance from the Soviet Union in the form of a people's liberation war. I believe that Afghanistan is an example of this specific scenario.

Preferably Strong Brakes

Terata: The thinking is to defend Japan by military methods. Moreover, when you stand on the thinking that it is bad not to adhere tenaciously to what is called military parity for that purpose and that this is the sole power to deter war, ultimately you build up defense power, mutually overestimating the opponent's striking power. Won't there be unlimited expansion of so-called armament?

Asonuma: The policy of military balance certainly has two aspects. With that, I believe there is both the possibility of war occurring and at the same time, the conditions to deter war on the other hand.

Kaihara: I would like to say two things. I believe it is unrealistic for Japan to be independent in one way or the other. So, the present policy of Japan is a security system using the structure of the U.S.-Japan Security Treaty, which is the military power of the United States.

Secondly, I would like to say that you spoke of the fear of unlimited expansion, but that is impossible. First of all, there are financial restrictions. Also, there are political restrictions by the Diet. I have written that newspapers and the Diet are the so-called framework which put a brake on defense expenditures.

Kitamura: I have concluded the same opinion as Expert Witness Kaihara.

Since the military balance between the United States and the Soviet Union is crumbling at the present time, the United States is trying to restore it. However, since the United States cannot do it alone, it is seeking the cooperation of Japan as allies who must do it together, but as Mr Kaihara says, there are natural restrictions within the nation if it gradually becomes bigger.

At the same time, in such a situation, the United States and probably the Soviet Union too perceive the stupidity of unlimited expansion of armament and probably are working toward reducing it. If that is so, the level will

gradually be lowered, preserving the balance. I believe that such efforts are being carried out.

No Need To Stand on Theory of Deterrent Power

Expert Witness Fujii: If the opponents are to be removed, I believe it is best to consider a method of removing them without particularly dealing in military power.

One more thing, if you stand on the theory of deterrent power, ultimately there is a balance with the opponent so that losses sustained by the opponent in a counterattack will exceed the benefits obtained by attacking. Since this is the theory of deterrent power, ultimately you must become stronger than your opponent.

Also in the missile question a while ago, competition ultimately has arisen so that if the opponent has ones with longer range, you must have longer range also. In speaking about the Soviet Union, the SS20 has become a problem. The damage inflicted here by the SS20 would be very serious. It has been decided that we should be prepared for this. But, prepared with what? You also have spoken about the existence of the security treaty, but does the United States have anything to cope with the SS20? They already have reached their limits and so a reduction in armament has now become the international consensus of opinion. For that reason, I believe it is no longer necessary to chase after the United States and the Soviet Union by standing on the theory of deterrent power.

The Actual Situation of the Ground, Maritime and Air Self Defense Forces in a Pitiful State

Terata: My wording was probably somewhat poor about unlimited mutual increases in defense power, but viewing the present military expansion policy of U.S. President Reagan, for example, I cannot believe there is a trend toward reduction as Mr Kaihara has said. Rather, there is a trend toward great military expansion and the upper and lower houses of the U.S. Congress are restraining it somewhat. The basic trend substantially is striving for a big increase.

So, in the case of Japan, even though you speak of the exertion of restraining power by politicians and the media, or the exertion of financial deterrent power, we remember the very deplorable fact about Finance Minister Takahashi in 1935 when Korekiyo Takahashi could not refuse the requests of the military and was generous with the military budget, the limits of national resources already having been exceeded. Among Japanese politicians, the ones who are crying for increased defense power are the Liberal Democratic Party. The opposition parties are few in number, and viewing the allocation situation of the budget overall, it is an unmistakable fact that the military budget is prominent and the reality cannot be denied that Japan also is becoming involved in armament competition.

Kaihara: Since Reagan came to power in the United States, there was a report by Weinberger last year that the strategy up to now of half a war was a mistake. So, a new Reagan policy has appeared to deal simultaneously with simultaneous, multiple conflicts. As you know, there are various opinions about this within the United States also. Therefore, I would like all the politicians to decide clearly the basic concept of why Japan should have defense power. Accordingly, I believe it is necessary to talk with our ally, the United States.

However, as successive prime ministers have said, the present Ground, Maritime and Air Self Defense Forces are not powerful and with fighting as the premise, the present Ground, Maritime and Air Self Defense Forces are in a very pitiful condition from various aspects. Therefore, I believe a larger budget is necessary really to make these self defense forces powerful.

(As of March 1981, the MSDF has 48 destroyers, 14 submarines, 40 mine-sweeping craft, 21 patrol boats, and 190 tactical aircraft.)

Defense Expenditures Will Not Be Reduced

Terata: Actually, it has been concluded that the Self Defense Forces must be strengthened further. Ultimately, as I said some while ago, great consideration is mutually being given to the opponent's military force and you yourselves have reached the conclusion that the armament of free nations must be further expanded.

That is not to say we are following in the footsteps of Reagan or the United States, but in viewing the national defense report of the United States, we are spurring Japan on and through our incitement, Japan is clearly extolling a gradual increase in defense power. I believe that denial of U.S. influence cannot be termed a just view at all.

Kaihara: I am not speaking about increasing the Self Defense Forces. I use the word "buildup." Based on the actual scale of the present Ground, Maritime and Air Self Defense Forces, as successive prime ministers and JDA director generals have said, an increase in defense expenditures within the scope of the present scale is necessary to create a powerful self defense force. Expenditures must not be reduced.

Secondly, this concerns the United States, and I believe that these points should be fully discussed between the United States and Japan.

Fujii: I believe that it is very clear what should be done to prevent war. The wisdom of mankind already has solved that problem. Military power in such a case is almost meaningless and harmful, I believe.

The United Nations Charter has made that clear. The Japanese Constitution has further driven that home. Further from an international viewpoint, rejection of aggressive war in particular, peaceful solution to international conflicts and additionally, mutual understanding among the numerous peoples, national sovereignty, respect for basic human rights,

and equality of men and women, and doing all possible to protect peace are duly written in the United Nations Charter. Unfortunately, however, it is not thoroughly observed.

The Military Cannot Be Replaced by Foreign Diplomacy

Kitamura: In order to maintain peace, I believe it is necessary to promote peaceful foreign relations parallel to maintaining a military balance. One alone is no good. They both supplement each other. However, the military cannot be replaced by foreign diplomacy.

Kaihara: Generally, there are three conditions for establishing the security of a nation. These are efforts in the aspect of foreign diplomacy, efforts in the aspect of economics, and efforts in the aspect of the military. It is commonly accepted in the present-day world that a nation first thinks about security through the combination of efforts in these three aspects. That also is manifested in the United Nations Charter.

Secondly, the defense power possessed by Japan is different from its former army and navy, and its purpose is not to go abroad. Since it must deal with an attack when it comes from any country, it has no policy implementation methods like the former military. In other words, since it is prepared for a situation when foreign diplomacy and economic methods of security are destroyed and by some chance the dispatch of defense power is required, specifically when a military invasion has occurred, it is different in quality from the efforts in the other two aspects. I believe it is necessary to make this point clear.

Asonuma: As Expert Witness Kitamura has said, nonmilitary measures cannot be substituted for military measures. Even if they could be substituted, they would be extremely limited to just one portion. I believe I can say this. At the same time, leaders nevertheless must normally consider the risks in promoting the security of the nation and the happiness of the people. This risk management or crisis management normally must be considered. Unfortunately, I believe the Japanese Constitution is probably blank on this point.

Lessons of the Vietnam War

Terata: In any event, when Japan is involved in a war, modern warfare will be accompanied by great destructive power. When men who were formerly in the Japanese military, such as Saburo Endo, nevertheless have stated their opinions as expert witnesses before this committee, they say in reality Japan cannot be defended. The geopolitical aspect also was greatly emphasized, but the accompanying great destruction is stressed. It is a question whether or not such destruction can be withstood. What do you think about that point?

Asonuma: Your question is whether the destruction can be withstood, but I believe you are assuming it is nuclear. However, in reality when considering defense policy, Japan is relying upon the nuclear umbrella of the

United States for the nuclear problem. I believe you cannot consider any future emergency situation without considering it nuclear. Therefore, I believe consideration must be made of what should be done to withstand the destruction.

Kaihara: Your question is about whether we think very great destruction can be withstood, but that is to be determined by the people. In order for the people to defend the present structure of a free Japan, it is a judgment for each citizen to make about whether or not it can be withstood should there be military action from outside destroying this structure of a free Japan. By what means will this judgment of the people be made? Naturally, there will be consideration of the various positions of the politicians, these will be reflected in the people, and a conclusion will be reached in accordance with the wishes of the majority. I believe that will be the case.

However, if I may say one word, when we look at the circumstances of the Vietnam War, the United States actually dropped on the small country of North Vietnam 6.7 megaton bombs and over three times the number of bombs used during the whole period of World War II in an area of some 330,000 square kilometers. The circumstances of the Vietnam War were that it withstood that destruction and finally drove out the United States. When we see such conditions, I believe that whether or not the people can withstand great destruction in the future will truly be determined by the direction in which all the politicians take the people.

Danger for Japan in Present State

Kitamura: I believe there is great danger if the present remains as it is. However, I am confident that the Japanese will all feel like protecting Japan to the utmost if such a stage is reached. Of course, in order to be able to withstand it, I believe that efforts are necessary nevertheless to confine the destruction. One way is buildup of defense power, and another is buildup of the so-called civilian defense structure.

Fujii: Ultimately, when viewing the course of the transitions of postwar Japan up to now, a threat has been created in the form of matching stature with increased buildup of military power. As a result, there has been gradual preparation for a big war, and such a war will occur. Such was the case before World War II also. At present, there is no preparation for a limited, small-scale invasion. Emphasis has been laid on withstanding nuclear destruction.

In particular, the threat of the SS20 has been emphasized and by being prepared for that, to mutually keep the nuclear balance. There even have been sporadic cries to bring in the Pershing II. Will something occur or what will happen as a result? From the geographical conditions, social conditions and economic conditions of Japan, I believe that Japan ultimately would not be able to withstand even a conventional war, and of course, be completely incapable of dealing with a nuclear war.

Conditions of No Nuclear Use by the United States and the Soviet Union

Terata: Nuclear [weapons] are now a reality and there is no assurance that nuclear deterrent power will not be destroyed. Military experts in the United States and Europe, for the most part, are saying that there is no assurance that there will not be a nuclear war. Politicians also have been saying that. That means that if the impossibility of nuclear war cannot be made a premise after all, your arguments are incongruous.

Kitamura: I believe that if the present nuclear balance is maintained, both the United States and the Soviet Union will refrain from nuclear use. For that reason, we have strongly requested the United States to restore and maintain the nuclear balance, and at the same time have requested a buildup of the defense structure with conventional military power. I was speaking about the case of a non-nuclear conventional war.

What I would like to say is, what would Japan do if it were unable to withstand such a situation? Of course, there would be turmoil, but nonetheless, if we realize that efforts must be made to fight it out and survive, I believe that such efforts will be made.

Only God Knows

Asanuma: I believe the nuclear problem is probably a very paradoxical problem. Therefore, I believe that in reality nuclear intimidation also is being conducted. Prior to the question of whether or not it could be withstood, research naturally must be made on, for example, how to prepare for a nuclear attack.

In the case of Great Britain, for example, there is a national security division even in places like the Ministry of Agriculture and Forestry. What does it do? It is studying how to store and distribute provisions when a nuclear attack is sustained. I believe you cannot submit to intimidation to the point of research and stop.

Diet Member Terata: Are all of you, except for Expert Witness Fujii, arguing everything from the premise that it is impossible for a nuclear war to occur?

Asanuma: I cannot make the judgment that it is impossible to occur. The reason why is that I believe that nuclear deterrent power is established with the premise that nuclear [weapons] will be used. However, I believe the nuclear problem has the very strong coloring of political weapons that would be very difficult to use and probably not used.

Kaihara: Only God knows about the future. I believe there will not be a nuclear war between the United States and the Soviet Union.

However, some years ago, a publication appeared within the Soviet Union with an authoritative article stating that they do not fear nuclear war and that the belief that nuclear war is impossible because the one who

launches the first nuclear attack will himself fall from the second attack of his opponent is an argument of bourgeois nations, and this they do fear. This has exerted some influence here and there. Therefore, both the United States and the Soviet Union have greatly debated the possibility of a so-called limited nuclear war.

Secondly, if on the other hand, the United States and the Soviet Union should fight a war, they would not stop no matter how many times the Japanese asked them. If there is fear of a nuclear war between the United States and the Soviet Union, I believe the policy is to build facilities to protect all the citizens even in case of a nuclear war, like Switzerland is doing.

Blockade of the Sea Straits To Avoid War

Ierata: I would like to ask Expert Witness Kaihara a question. In the past, you actually haven't stated your opinion on the impossibility of defense of the sea lanes, have you?

Kaihara: I explained it a while ago, but the specific details expressed by the words of so-called sea lane defense are not clear and discussion is not possible if the details are not first made clear, but I say that it is impossible to ensure the safety of the sea lanes as currently reported. I also have gone to the United States and said that it is unnecessary in peacetime and impossible in cases of emergency.

Kitamura: First of all, Expert Witness Kaihara just said that defense of the sea lanes in an emergency is impossible, but I assert that it is possible, militarily. Of course, the 100 percent safety of ships cannot be guaranteed. But it will not be zero percent. We are making it as great as possible between zero and 100. We are not planning for safety of the sea lanes by just one method, but are undertaking several parallel methods.

According to the newspapers, at the Hawaii Conference last year, the United States said that if Japan defended the sea lanes within 1,000 nautical miles, the United States would undertake offensive operations within that sea area and defense of the sea lanes beyond 1,000 nautical miles. Consequently, I believe that at the present stage it should be specifically discussed with the United States along those lines.

Kaihara: As mentioned a little while ago, the same as with sea lanes, it also is not clear what will be done by the words strait blockade. Recently, the chief of the Maritime Staff has said that if 30 percent could be blocked, it would be successful, but under what conditions and against which enemy can 30 percent be blocked? It is not at all clear whether or not we have that capability at present. Even if 30 percent is blocked, 70 percent will comfortably pass through. What is to be made of that? Considering that, I believe the words blocking strait transit, strait blockade and strait control are all playing with the same concept.

Kitamura: As I said at the outset, I believe the order is reversed. If the straits are blockaded, there will be no all-out war with the Soviet Union. All-out war with the Soviet Union, naturally, will not be just with Japan. The necessity of a strait blockade will be borne out of all-out war between the West and East.

Kumao Terata, member of House of Councillors = Japan Socialist Party

Hirosato Asonuma (former RADM; military critic = Democratic Socialist Party, non-partisan club nominee)

Osamu Kaihara (former director of National Defense Council; critic = Komeito nominee)

Kenichi Kitamura (former VADM; director, Japan Strategic Research Center = Liberal Democratic Party nominee)

Haruo Fujii (military critic = Japan Socialist Party nominee)

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NATION'S ECONOMIC STRATEGY: SOGO SHOSHA, ASEAN

Djakarta THE INDONESIAN QUARTERLY in English Vol XI, No 2, 1983 pp 76-98

[Article by J. Panglaykim: "The Japanese Economic Strategy: Sogo Sosha and ASEAN"]

[Text]

INTRODUCTION

The business relationship between ASEAN and Japan may be observed from different points of view. From the point of view of the economists, it may generally be observed from the trade statistics and investments as they developed during the last 10 years. But these figures mainly show the development in the foreign investment and trade sectors. Other figures insofar as they concern the services sector (banking, shipping, consultancy, insurance, to name only a few) are not normally very much exposed. Foreign investment figures are normally included, but they are generally confined to figures based on the formal application and implementation of the investment projects, perhaps sub-divided into manufacturing, etc. Other figures, which may be bigger and more important such as those covering the various types of credit for machinery, equipment, raw materials, etc., are generally not available. It is known to many economists that the investment figures are only part of the total investment in, and the channeling of funds to, ASEAN. For instance, if a big Sogo Shosha (= general trading firm) has officially invested US\$ 100 million in a number of projects, the amount involved in other types of activity which are perhaps related to these investments and other types of business, may be ten times bigger. We would then be able to feel how huge the amount is that is involved in the investment and trade sectors. Other types of activity like the winning of so many large contracts for the construction of LNG, petro-chemical, and other government projects might not have been included in the official statistics, but the amount involved in these projects and government purchases could run into billions of US dollars. If we assess the above-mentioned explanation, we might now have a feeling of the importance of ASEAN for the Japanese businessmen because of the huge amount involved in the activity, the number of people taking part in these deals, the possible leakages flowing out of such big deals, the tensions which might have arisen among the interested parties, the number of government officials involved in all these deals, etc. In other words, the relationship in these fields of activity can be considered as very intensive.

Foreign Investment

The table in Appendix 1 shows the Japanese direct foreign investment in ASEAN in the fiscal year of 1980 and 1981. The Japanese foreign investments in Indonesia, for instance, in the fiscal year of 1981, amounting to US\$ 2,434 million, are concentrated in resource-based industries such as the development of oil and gas. In Singapore, in the same fiscal year, that is, from April 1 to March 30 the foreign investments, which amounted to US\$ 266 million, are mainly in financial and commercial services sectors. This places Singapore as the third most important Asian investment centre for Japan.

Trade

Appendix 2 shows Japan's exports and imports to and from ASEAN in 1980. Exports to ASEAN countries amounted to US\$ 13 billion, consisting of Thailand US\$ 1.9 billion, Singapore US\$ 3.9 billion, Malaysia US\$ 2 billion, Philippines US\$ 1.6 billion, and Indonesia US\$ 3.5 billion.

Imports from ASEAN countries amounted to US\$ 21 billion. Members of ASEAN, respectively Thailand has 3.5 percent of the total share of Japan's imports or US\$ 1.1 billion, Singapore 4.7 percent or US\$ 1.5 billion, Malaysia 10.9 percent or US\$ 3.5 billion, Philippines 6.1 percent or US\$ 2 billion, and Indonesia 41.5 percent or US\$ 13 billion. This gives as a picture of the Japanese investment pattern which is focused on manufacturing industries.

As indicated earlier, we will only very briefly discuss the quantitative aspects of the business relationship between Japan and ASEAN. From the point of view of foreign investment, the Japanese, as is already known to many of us, have concentrated their investments in the manufacturing sector, and this pattern has been very much reflected in the import trade pattern from Japan, which is heavily concentrated in industrial raw materials, machinery and equipment as a result of the concentration in manufacturing. On the other hand, ASEAN, especially Indonesia, has become the supplier of oil and unprocessed raw materials such as bauxite, copper, nickel, rubber, timber, and palm oil.

Sogo Shosha (General Trading Firm)

If we observe this business relationship from the institutional point of view, the main actors in this arena are the big general trading firms, which have initiated at the beginning stage a number of joint ventures with industrial units in Japan. In practically every joint venture the general trading firms (Mitsubishi, Marubeni, Nissho Iwai, C. Itoh, to name only a few) were involved as promoters and initiators. Hence, it is important to note that the amounts invested officially in the numerous joint ventures constitute only a part of the total commitment in terms of the various types of financial arrangement with the ASEAN business and industrial sectors. The total amount involved and committed by the general trading firms, be it through the Sogo Shosha's, merchant banks, or other Japanese financial institutions, might be quite substantial as was indicated earlier. The officially invested amount, however, is only a tip of the iceberg. This also cannot be said to be all, because it is very difficult to estimate the total amount involved and com-

mitted by the Japanese private sector to the ASEAN business and industrial sectors.

From the national point of view, the ASEAN trade pattern seems to be very much oriented to the Japanese economy as a result of the heavy investment in the manufacturing sector, while from the point of view of the operational side, we have seen the presence of, and at times the dominating role played by the business and industrial actors, but in all cases it is the presence of the Sogo Shosha's that is very much in the picture through the business, industrial, and banking sectors.

We shall discuss the role played by the Sogo Shosha's in more detail at a later stage of this paper.

THE FOCUS OF THE PAPER

We are aware of the many economic analyses prepared by economists, research institutions, etc., about the economic relationship between ASEAN and Japan. We are now approaching the subject of business relationship between ASEAN and Japan from the point of view of the actors who played an important role in shaping up this relationship. We are, however, more concerned with the operational aspects of this relationship, particularly about the strategy, structure (the way they organize themselves), and environment, which have brought about results that are beneficial to those actors-involved at the operational level. In plain business language, we will focus our attention on the various Japanese firms involved in the operation of trade, investment, and services. We are interested in assessing and analyzing the way they may have formulated their strategy, structure, and organization that made it possible for them to operate in the ASEAN environment successfully to make the relationship at the business and industrial level more and more asymmetric. One of the important actors and players who have played not only a pioneering but also an effective role in the implementation of the Japanese national strategy is the group of Sogo Shosha's as part of the considerably bigger groupings and as part of what we call the Japanese integrated national system. This has made the actors and players become a formidable power which the ASEAN countries have to face in their relationship with Japan in the business, industrial, and investment sectors.

In analyzing the role, importance, and behaviour of the actors and players, a concept proposed by Hollerman¹ seeks to explain on how to approach the business relationship between Japan and the ASEAN region.

Hollerman's Approach and Concept

Impact of the Relationship

The impact of the relationship might originate from structural and policy sources.

1. *Structural Sources.* One of the important sources, which could be seen as structural, is the "vertical anatomy of Japan's foreign trade." In our terminology, the organizational set-up of the industrial and trade complex of the Japanese actors is seen as a vertical/horizontal conglomerate which is the result of Japan's strategy based on export-led industrialization. This is a consequence of its economic structure which is less endowed with natural resources. This Japanese strategy has led to the organization of vertical and horizontal conglomerates as part of the Japanese integrated national system.
2. *Policy Sources.* As a result of the above-mentioned strategy, Japan has to pursue a "supply-side strategy" which is linked with the doctrine of dynamic "comparative advantage." Its objective is to "achieve competitive power in the USA market." Having been successful in penetrating the competitive American market, the market of the rest of the world will be much easier to penetrate and to acquire a substantial share of the domestic and international markets.

Nature of the Business and Economic Impact

1. *Sources and Nature of Impact.* The economic impact could have arisen from a number of sources. This could be functional, either of a direct or indirect nature, or at the macro or micro level, but it could also be policy-based or structurally oriented. This means also that the impact could be a mixture of this all, originating from a number of sources.
2. *Functional.* Japan as a whole and the actors in particular have become suppliers, customers, competitors, and promoters, all in one. This will result in the flow of goods, services (banking, etc.) people, capital goods, equipment and technology. In other words, they have managed to become providers, suppliers, customers, and promoters of assortments of goods and services.
3. *Macro Level.* Impact may be a result of the rate of economic growth, degree of price stability, level of employment, yen exchange rate, and balance of payments surplus (almost no deficit). For example, the importation of Japanese goods will benefit the customers, but this will affect the balance of payments of a country. The era of double rate economic growth, followed by a slow economic growth, has an impact not only on the domestic scene, but on the international business sector as well. The yen exchange rate, which is seen as being still undervalued, has been observed as a cause of the steady growth of Japanese export to the various industrial countries.
4. *Structural Impact.* The competition of Japan's trade and its shortage of natural resources have a tremendous impact on the way it handles and manages its national and international businesses. Its exports trade is concentrated on a number of products such as electronic products (television, etc.), motor vehicles (Honda, Toyota, Suzuki, Yamaha, Datsun, etc.), etc., while the composition of its trade to developing countries is made up mainly of unprocessed raw materials, including oil, heavy chemicals, industrial products, machinery and equipment. Its import trade is concentrated on mineral products, particularly oil, LNG, etc.

5. *Policy-oriented Impact.* Because of its export-led strategy, Japan's economy is a "free-market oriented economy." The Japanese are considered as free traders in the international business world, but domestically they have put a number of intricate tariff and non-tariff barriers (formal and informal), which are by nature economic, traditional, social, cultural, as well as political. The case of the subsidy to the farmers, the grass roots for political power of the Liberal Democratic Party, is a case in point. It appears that domestically Japan has to rely on its monetary policy and less on its fiscal policy.

Although Japan is seen by many of us as having developed a system of formidable economic power, its economic and business dependence on the international business world could be interpreted as an indication of instability. Compared to other industrial countries, Japan is much more vulnerable to international economic disruptions, but its power of being able to arrive at a national consensus when faced with problems like adjustments has enabled it to face and handle major economic crises. This is, however, less apparent in the political arena.

As indicated by Hollerman, all Japanese decisions, be they made by the private as well as government sectors, seem to reflect "national interests, e.g. survival, independence, continuity, stability, and economic security." This is basic insofar as the implementation of the national strategy is concerned which will, in turn, determine the policies to be pursued in the political, military, and economic fields. But as Japan has found out, particularly in the last economic summit at Versailles and also in its relationship with the United States, which has reached a "boiling point," it has to come to the realization that it will be less and less in a position to separate economics from politics.

Another View: The View of Far Eastern Economic Review (FEER)

The conclusion reached by the *Far Eastern Economic Review* (FEER) in a focus article in its June 11, 1982 issue, entitled "Japan '82: The Trade War" will be reclassified here in terms of the systematic approach suggested by Hollerman.

1. *Functional.* "Japanese society is not basically about making money but about finding a place in the world by trade, meaning securing as large a share as possible of the world markets. The Japanese have no other way of living, let alone of living well."
2. *Structural.* Many of the conclusions reached by FEER seem to be of a structural nature. They are formulated as follows:
 - The Japanese have a more effective programme for development (i.e. they actually *have* a programme) and for pushing ahead in trade. Other people do not like it;
 - The sort of thing considered normal in the "me-me" societies of the West (consumer protests against the high prices of luxuries, parallel channels of import to cut prices, discount houses, and bargain basements) either does not exist in Japan or only operates when they do not hurt the interest of the Japanese. Foreigners are baffled and suspect cheating;

- Japan is correctly suspected of being an unreliable ally because alliance is a Western concept, unknown in Asia. Confucian societies understand empires (technically, Japan still is one), hegemony, tributary kings, and client states. All these are derived from the idea of the harmonious hierarchy, the fundamental notion of Confucianism. It may be (long term) more realistic than the Western idea that partnership between unequals is practical politics;
- As Japan pushes ahead in the technological race, as it shows many signs of doing (ask Portuguese consumers), Japanese society will probably move further from Western individualistic notions, not closer. Others, especially in Asia, may be prompted to follow the Japanese example;
- The Japanese still value internal harmony above the good opinion of foreigners because they have a long history of domestic strife, have evolved techniques to contain it and have hardly any experience of getting along with the outside world. This may explain their touching faith in Rich Country - No Army."

3. *Political.* "The industrialized world's current dispute with Japan is not about trade, but about economic development and technological progress."

From the functional point of view, Japan's position is to acquire a strong and dominant position in the world market and this is in accordance with the structural aspect that will enable Japan to implement its strategy:

- a. Ability to come with effective programme;
- b. Alliance concept which differs from the Western concept. Consciously or unconsciously, its alliance concept seems to be more toward the "empire and hegemony mentality or outlook;"
- c. Surging ahead in the technological race;
- d. Maintenance of internal harmony (inner national strength) which can bring about a sense of national mission.

And from the political point of view, it is a race for economic development which is now basically a race in technology.

PROVISIONAL PROPOSITIONS

Based on the above-mentioned concept and conclusions, the following propositions may be suggested:

The nature of power or influence exercised by the actors and players in the business relationship between the ASEAN countries and Japan originated from a number of sources which are structurally, politically, and culturally based. This blending of all the strengths originating from the different sources has been responsible for the creation of an informal, unseen, and disguised "integrated national system." It would seem that the ingredients of this integrated system are translated by the business/industrial sector into the following combination and mobilization of forces (see the diagram in Appendix 6).

1. *Management.* Cohesive, disciplined team, and experienced management, strongly based on the Japanese culture, has developed a unique Japanese management style, among others, based on seniority, loyalty, and collective responsibility.
2. *Technology.* If at the beginning Japan's stage of development in the technological sector was based on the making and buying of technology from the international world and on making it also commercially feasible, it has now developed its own capabilities. And the Japanese consensus is to go for a "knowledge-intensive era."²
3. *Capital.* Based on a high ratio of savings, the Japanese financial sector, namely the big banks, has been able to provide the Japanese business sector with the huge capital needed for the implementation of its national strategy. The Japanese banking sector with its access to the international money and capital markets has been supporting the implementation of the national strategy (export-led growth and industrialization economy).
4. *Governmental Support.* The formal and informal linkages, which exist among the business, political, government, and bureaucratic elites, have always been able to create an atmosphere in which the government has been playing the role of initiator, innovator, and supporter, along with the business, industrial, and banking sectors, depending upon the national and international environments.
5. *International Network.* The international network of information, offices, representatives, joint ventures, etc., which the conglomerates have developed during the last 25 years, has been one of the many key elements in their performance and has added to their strength in acquiring a dominating position in the international business arena. This includes the network of the Sogo Shosha's, banks, Jetro, etc.
6. *Vertical and Horizontal Organization.* The vertical and horizontal organization of the various groupings in the business, industrial, and banking sectors has been both an integrating and efficiency factor. Groupings like the Fuyo Group, Daiichi Kangyo Group, and the Mitsui, Mitsubishi, and Sumitomo Groupings have at the centre one of the main banks and one of the big general trading firms. The Fuyo Group, for instance, consists of the Fuji Bank as the centre in finance and Marubeni as the general trading arm. This has enabled them to provide an assortment of services and products.
7. *National Mission.* Along with the above-mentioned factors, which the Japanese have developed during the years with a view to implementing the national strategy and translating the national strategy into an operational one, a sense of national mission and a kind of "empire mentality" have also been developed, either consciously or unconsciously, which have inspired the top business leadership and their team of managers.

The combination and mobilization of these seven factors or strengths could be interpreted as an "integrated operational system" which has no match in

the international business world. It would be interesting to know whether this is also perceived by the Japanese business leaders and bureaucratic elite. This is how the author perceives the economic and business power which has been developing during the last 25 years, and this mechanism has proven to be a very effective and powerful economic weapon to face all kinds of economic crises.

We have now come to a stage in the discussion where we can elaborate more fully into the subject matter that concerns the Sogo Shosha's and their business relationship with ASEAN.

SOGO SHOSHA, THE MAIN MECHANISM FOR THE IMPLEMENTATION OF THE EXPORT STRATEGY

The formidable economic power created through the combination and mobilization of the "seven samurai's" is reflected in the position of strength of, and the role played by, the Sogo Shosha's in the implementation of the Japanese export strategy. Yoshiro Kunio, in his newest publication entitled "Sogo Shosha - The Vanguard of the Japanese Economy" characterizes the important role played by the nine Japanese general trading firms in the creation of a strong position in the world market. An earlier book was published by Alexander K. Young, entitled "The Sogo Shosha's Japan's Multinational Trading Companies." There are several other publications on the general trading firms, including those published by the Sogo Shosha's themselves like Mitsui, Mitsubishi and Marubeni. They are apparently the mechanism which reflects the combination and mobilization of these seven strengths of Japan. Another book worth mentioning was published lately by Chalmers Johnson, entitled "MITI, and the Japanese Miracle. The Growth of Industrial Policy, 1925-1975," which describes the economy of Japan as a rationally planned economy compared to that which is planned ideologically. He stresses that the developmental orientation has predominated throughout the Japanese business history. He also mentions that "... Japan has produced Keynesian policies as early as 1932 without a Keynes" and has called Takahashi the Keynes of Japan. The question might be raised whether or not Keynes was aware of the Japanese policies when he wrote his works.

MITI has been the main vehicle of the Japanese government and bureaucracy in guiding and assisting the nine Sogo Shosha's in their role of acquiring a dominant position in the world market and international business.

Sogo Shosha, Part of a Conglomerate

It is known that each Sogo Shosha is part of a bigger vertical and horizontal conglomerate. Mitsubishi Corporation is part of a 28-company conglomerate which includes Mitsubishi Bank, Mitsubishi Heavy Industries, Mitsubishi Chemicals, etc. Sumitomo with 21 companies includes Sumitomo Bank, Nippon Electric, etc., while Mitsui with 23 companies also incorporates Mitsui Bank, Toyota, Toshiba, etc. Marubeni Corporation as part of the Fuyo Group has Fuyi Bank, Nippon Kokan, Hitachi and Nissan Motors as

members of the conglomerate. Nisho Iwai and Nichimen are part of the Sanwa Group which also includes the Sanwa Bank, Kobe Steel and Hitachi Shipbuilding. Under the Dai-Ichi Kangyo Group we find C. Itoh, Dai-Ichi Kangyo Bank, Fujitsu, Kawasaki Steel, etc.

A list of these six conglomerates may be found in Appendix 3.

Assortment of Products and Services

Organized as one of the moving units in the vertical and horizontal conglomerates, these Sogo Shosha's are in a very excellent position to provide the international and national markets with an assortment of products and services. This includes products that range from needles and petroleum product to complete factories. However, in providing services, this does not only include quality control, design of factories or advice on marketing, but also provides many of the developing countries with a variety of financial services such as equity participation, credit on deferred payment basis, credit for the purchase of raw materials and components, etc. This also includes services such as taking advantage of their international network of offices, branches and representatives. To give us an impression of the diversity of business, a list of activities from the Mitsubishi Corporation's semi-annual financial report of March 1972 may be found in Appendix 4.

Composition of Sales of the Nine Sogo Shosha's

The Industrial Review of Japan 1981 published the composition of sales of the nine Sogo Shosha's as at 31st March, 1981 as follows: Fuels and chemicals 27.9 percent, Metals 25.4 percent, Machinery 19.9 percent, Food 12.5 percent, Textiles 7.5 percent, and Others 6.8 percent.

Sales of the Nine Sogo Shosha's

Appendix 5 gives us the amount of sales of the nine general trading firms from 1968 to fiscal year 1981. As we can see from the 1981 figures, around 60 percent of the sales of the Sogo Shosha's is in the area of international trade, while only around 40 percent seems to have originated from the domestic sector. The share of the Sogo Shosha's from the total Japanese trade in the export sector is 49.5 percent and in the import sector 59.6 percent, while the earlier figures of 1968 and 1972 show a percentage of more than 60 percent in the import sector.

These impressive figures serve to indicate the successful role played by the nine general trading firms in the implementation of the Japanese strategy of prominence in the international trade in that they have succeeded in penetrating the international world market.

Sogo Shosha and ASEAN

The volume of trade in terms of export to the ASEAN countries shows an impressive figure of around US\$ 31 billion while the import figure was around US\$ 32 billion during fiscal year 1980. Trade with the ASEAN countries goes along with investment, and the total investment in the ASEAN region seems to have surpassed the US\$ 5 billion mark, with Indonesia topping at around US\$ 3 billion.

Investment and Trade of the Nine Sogo Shosha's

The fact that the nine Sogo Shosha's have acted as promoters of numerous joint ventures in the manufacturing sector has enabled them to increase the trade between them and the ASEAN region. One can see that an investment of around US\$ 5 billion has resulted in impressive figures of around US\$ 31 billion in the export sector and US\$ 32 billion in the import sector. As promoters of the numerous joint ventures (and if allowed 100 percent control) the nine Sogo Shosha's have organized factories from textiles, chemicals, galvanized iron sheets, weaving yarns, motor cars to motor cycles with practically all well-known brands from Japan.

In the case of Indonesia, the motor car and the motor-bike business has been dominated by the Japanese, that is, from Toyota, Mitsubishi and Honda to Yamaha, Honda and Suzuki respectively. With the exception of Mercedes and perhaps Volkswagen, other Western and American-made cars have not been able to compete with their Japanese counterparts.

The electronic industry is another sector which is almost completely dominated by Japanese-made products, starting from Hitachi, Sharp, Toshiba, Sony to Sanyo. It is the same case with air-conditioners, washing machines, and other electric appliances.

The investment in these joint ventures has increased the volume of trade tremendously. All these joint ventures have to import not only components, spare parts, but also industrial raw materials from Japan. This dependency of the ASEAN manufacturing sector in terms of supply of industrial raw materials, technical know-how, components, spare parts, etc., has been developing because in many of these joint ventures the Japanese partner still has the majority of shares and is thus still in command of the management.

Although there are regulations in practically all ASEAN countries that within a certain period of time the majority of shares should be in the hands of the national partner, many obstacles have yet to be overcome. It is not only the majority aspect, but other aspects such as technical know-how, access to market, marketing skills, devotion, discipline and financial support, appear to be factors which any joint venture has to take into account before it will be able to have real control of the operation.

Partly Accepted as Member of The Family

In the mind of the Japanese conglomerate, all the joint ventures are apparently regarded as its extended arms all over the globe. Many of the top

management in Tokyo consider and treat all these joint ventures as part of the "family", and as such the maturity or independent process may never take place. It seems to be unthinkable that the Japanese manager here will be fully loyal to any joint venture when it comes to a choice. His loyalty base is his parent company and he has grown up in this milieu.

One cannot blame the Japanese manager stationed in an ASEAN country to be oriented to his HQ. It is part of the integrated system, as discussed earlier. He has no choice but to be loyal to his HQ in Tokyo. He is part of the conglomerate in Tokyo. Therefore, it is not yet possible that a joint venture will have as its top man an ASEAN national so long as the majority is in the hands of the Japanese partner (probably there are exceptions in some cases in Singapore or other ASEAN countries). But it is still unthinkable that the office of a Sogo Shosha in the capital of an ASEAN country will be headed by a national, because so far we have not yet seen a Japanese bank branch headed by a national. The national cannot fit in with the Japanese integrated system, their decision making process, etc. The national side is just a foreign element which comes from a completely foreign culture. Therefore, as discussed earlier, we are not part, or are not a fully accepted member, of the "Empire Family." It may take a long time before such a change can take place.

National Sectors of ASEAN

The ASEAN business, financial and industrial sectors have been developing toward maturity in the last 15 years. These sectors have developed their capability and their capacity. The growing capability will enable us to be treated as equal partners. Although the stage of capability and capacity among the ASEAN private and government sectors may differ, it is a fact that almost all ASEAN countries will be in a position to create what is called "Third World Multinational Corporation." The growing capability can be seen in the establishment of bigger groupings such as Sime Derby, Garuda, SIA, DBS, UOB, Waringin Group, Astra Group, Dunlop, MUI, and Bangkok Bank Group.

The increased capability and capacity of these sectors have enabled us to dismantle the formal package-deal joint ventures. We are now in a better position to capitalize and manage a number of projects without accepting the package-deal principle. This has been a pattern of the past. Access to the international capital and money markets, access to the technological market and the national credit standing of the ASEAN countries are important factors in translating the macro strength into the national asset.

But one has to be realistic to recognise that a Sogo Shosha is still a formidable economic and business power with its ability to provide the international business world with an assortment of products and services (including its international network). This means that the challenge of the business, industrial and banking sectors in the years to come is to create such a mechanism. The creation of business organizations, which will be able to provide an assortment of services, seems to be inevitable if we want to have a respectable presence in the international business. The challenge in the years to

come is whether the ASEAN business leaders will be in a position to organize themselves into such conglomerates.

PRELIMINARY OBSERVATION AND CONCLUSION

From the quantitative and qualitative points of view, it may be asserted that the business relationship between Japan and ASEAN is inclined to go in the direction of an asymmetric relationship.

The qualitative side has been illustrated by the tables and the various data in the appendices, indicating the strong and dominant position of Japan in both the trade and investment sectors. This may be more the result of its qualitative strength, because it does not only apply to the Indonesian case but also to the relationship of Japan with the international business world.

Japan's strategy of pursuing a dominant presence in the international business world has brought about a dynamic process of combining and mobilizing all its resources, strengths, and homogeneity of cultural background. The Japanese economic and business machinery has established an integrated national operating system which has no match in the international world. The Japanese concept of alliance, which is most probably, either consciously or unconsciously, a kind of "empire mentality and hegemony" seems to be reflected in their sense of mission of finding a prominent and dominant position in the international business world. This has made it possible for the Japanese to translate the national strategy into an operational strategy. It means that they have succeeded in combining and mobilizing management, technology, capital, governmental support and guidance, international network, vertical and horizontal organization, and a sense of national mission of hegemony of the empire mentality concept. In so doing they have created an "integrated national system" and have at the same time also assigned the implementation of this system to the actors in the world of national and international business. The big conglomerates, together with their Sogo Shosha's (general trading firm) and their banks, are the most effective actors in acquiring a dominant position in the international business scene. The machinery created by the Japanese will be able to cope with many of the economic crises experienced by all nations.

With this economic and business power as its weapon, Japan has managed to dominate the international business world and to develop such a dynamic approach that the industrial world, probably the USA, now seems to be declining further and further. It appears that practically all the industrial nations have lost both their dynamics and national strength. So the world of business now seems to be developing into two camps, of which one is Japan with its formidable economic and business superpower and an effective mechanism of a range of formidable actors, and the other the industrial nations with their actors whose strength is declining. As can be expected, this situation will end up in a strained relationship. It is forecast that the world is going back to the oldest system of trade, that is, barter, while the word "protectionism" is also going to be accepted even by the most respectable economists (champions of the free trade principle) if the national cause is at stake. If the industrial nations,

which have been considered as the most advanced nations, do not seem to be able to match the Japanese actors, what will then be the future?

The developing strained business relationship in the world today appears to have transcended into the political arena. It will not be the case of the various actors of international business anymore, because it will not be the domain of the politicians and the policy makers. These people will be responsible as to whether there will be another trade war or not.

The race and the challenge of the future between the economic super-powers, that is between Japan and the USA, will be a technological challenge. With its formidable economic and business power, it will be fair to say that in the years to come Japan will be able to catch up with the technological innovation of the USA, and if the Japanese are able to beat the Americans in the technological field, what will then be happening?

The above discussion will give a bird's-eye view of the asymmetric relationship between Japan as a super economic and business power and ASEAN. For ASEAN the challenges ahead are enormous. The above discussion has also enabled us to know what the ingredients and the elements are of developing such an integrated strength. It will be of no use to blame Japan or the other industrial nations for being the main actors of this asymmetric relationship and for an eventual development of a kind of trade war. ASEAN has to take to heart that the development in the world of international business will favour only those who are able to develop such an integrated strength.

As mentioned above, the challenges that the ASEAN business sector will have to face in the years to come will be enormous. Taking advantage of the increasingly excellent credit standing of the nation, the ASEAN private sector has surged ahead during the last 15 years and has developed a degree of business maturity. A number of groupings have managed to float needed capital on the international capital and money market in order to finance their projects or supplement their operating capital. Gradually, these groupings have become more independent of the so-called "package-deal" concept. At present, many of them in the private sector are able to generate their own capital needs and by doing so they will be in a better position to buy technology from a wider spectrum compared to the package-deal concept. This development of maturity, in a sense, might have been observed by the business community in Japan. As the ASEAN private sector develops in the years to come, it is hoped that the business and industrial communities will recognize and respect the strength developed in the last 15 years. The business community in Japan will also have to consider the growing effort and process in the ASEAN economies of deliberately going for a change in the trade and investment patterns. The changing patterns of trade and investment will also bring about institutional changes, particularly in the trade and services sectors (such as banking). These changes will hopefully strengthen the position of the industrial and business communities in ASEAN.

A more confident and strong business community will certainly emerge in the years to come, so it is important that the Japanese business community will be aware of this trend.

The ASEAN business, industrial and banking communities have watched very closely the inroads of the Sogo Shosha's to their respective economies. They have been the effective mechanism of the Japanese strategy in dominating the economies. As indicated earlier, the growing capability of the ASEAN business, industrial and banking sectors should take up the challenge of creating organizations which could implement the provision of an assortment of products and services. This provision of an assortment of products and services has been one of the enormous strength in implementing the Japanese growth strategy and in becoming an effective mechanism in acquiring a dominant position in the world market. The example and experience of the Sogo Shosha has to be taken as a kind of inspiration; an inspiration that may lead to the organization and management of the business, industrial and banking sectors in a more effective way in facing the formidable competitive economic and business power of the Sogo Shosha.

¹Leon Hollerman, "Japan's Economic Impact on the United States," *The Annals*, March, 1982.

²See "Japan and the US are Struggling for Supremacy in Semi-conductors," *Times*, August 9, 1982, and "Japan's High Technology Challenge," *Newsweek*, August 9, 1982.

Appendix I

JAPAN DIRECT FOREIGN INVESTMENT IN ASIAN COUNTRIES (in US\$ million)

Countries	Fiscal Year 1980-1981	Fiscal Year 1981-1982 (April 1 - March 31)
Indonesia	529	2,434
Hong Kong	158	329
Singapore	140	266
South Korea	35	73
Philippines	78	72
Taiwan	47	54
Thailand	38	31
Malaysia	146	31
Total	1,186	3,338

Source: *The Straits Times*, 1st September, 1982.

Appendix 2

JAPAN'S TRADE WITH ASEAN COUNTRIES (1980)

(Units: \$ 1,000)

Country and Region	Exports			Imports		
	Export Value	Compared with Previous Year (%)	Share (%)	Import Value	Compared with Previous Year (%)	Share (%)
Total	30,909,893	118.3	100.0	31,751,399	121.2	100.0
ASEAN	13,029,344	135.1	42.2	21,216,002	130.3	66.8
Thailand	1,916,549	111.8	6.2	1,119,485	95.7	3.5
Singapore	3,910,856	146.0	12.7	1,507,224	102.3	4.7
Malaysia	2,060,859	136.8	6.7	3,470,854	106.6	10.9
Philippines	1,683,337	103.8	5.4	1,951,426	123.3	6.1
Indonesia	3,457,603	162.8	11.2	13,167,013	147.9	41.5

Source: White Paper on International Trade, 1980.

Appendix 3

ENTERPRISE GROUPS

1. Mitsubishi Group¹

Banking and Insurance

Mitsubishi Bank
Mitsubishi Trust and Banking
Tokio Marine and Fire Insurance
Meiji Mutual Life Insurance

Trading

Mitsubishi Shoji

Mining and Manufacturing

Mitsubishi Mining and Cement
Mitsubishi Oil
Mitsubishi Metal
Mitsubishi Steel Manufacturing
Mitsubishi Heavy Industries
Mitsubishi Kakoki
Mitsubishi Gas-Chemical
Mitsubishi Plastics Industries
Mitsubishi Rayon
Mitsubishi Petrochemical
Asahi Glass
Mitsubishi Paper Mills
Kirin Brewery
Mitsubishi Motor
Nippon Kogaku
Mitsubishi Electric
Mitsubishi Chemical Industries
Mitsubishi Aluminium
Mitsubishi Monsanto Chemical

Others

Mitsubishi Warehouse and Transportation
Nippon Yusen
Mitsubishi Estate
Mitsubishi Construction

2. Mitsui Group²

Banking and Insurance

Mitsui Bank
Mitsui Trust and Banking
Mitsui Mutual Life Insurance
Taisho Marine and Fire Insurance

Trading

Mitsui Bussan

Mining and Manufacturing

Mitsui Mining
Mitsui Mining and Smelting
Mitsui Shipbuilding and Engineering
Mitsui Toatsu Chemicals
Mitsui Petrochemical Industries
Toray Industries
Japan Steel Works
Sanki Engineering
Nippon Flour Mills
Tokyo Shibaura Electric
Oji Paper
Toyota Motor

Mining and Manufacturing

Sumitomo Coal Mining
Sumitomo Metal Industries
Sumitomo Chemical
Sumitomo Electric Industries
Nippon Electric
Sumitomo Shipbuilding and Machinery
Nippon Sheet
Sumitomo Cement
Sumitomo Aluminium Smelting
Sumitomo Light Metal Industries
Sumitomo Bakelite

Others

Sumitomo Warehouse
Sumitomo Realty and Development
Sumitomo Construction
Sumitomo Forestry

Sanwa Group³

Banking and Insurance

Sanwa Bank
Toyo Trust and Banking
Nippon Life Insurance

Trading

Nissho-Iwai
Nichimen
Iwatani

Mining and Manufacturing

Osaka Cement
Kansai Paint
Kobe Steel
Daihatsu Kogyo
Tenjo
Tokuyama Soda
Toyo Rubber Industry
Nakayama Steel Works
Hitachi
Hitachi Shipbuilding and Engineering
Maruzen Oil
Unitika
Iwatsu Electric
Shin Meiwa Industry
Sekisui Chemical
NTN Toyo Bearing
Hitachi Chemical
Hitachi Metals
Hitachi Cable
Fujisawa Pharmaceutical
Sharp
Tanabe Seiyaku
Ube Industries

Others

Ohbayashi-gumi
Hankyu

Others

Mitsukoshi
Mitsui Warehouse
Mitsui Real Estate Development
Mitsui OSK Lines
Hokkaido Colliery and Steamship
Mitsui Construction

3. Fuyo Group³

Banking and Insurance

Fuji Bank
Yasuda Trust and Banking
Yasuda Fire and Marine Insurance
Yasuda Mutual Life Insurance

Trading

Marubeni

Mining and Manufacturing

Yokogawa Electric Works
Oki Electric Industry
Canon
Kureha Chemical Industry
Kubota
Sanyo-Kokusaku Pulp
Sapporo Breweries
Showa Denko
Toa Nenryo Kogyo
Toho Rayon
Nippon Kokan
Nissan Motor
Nippon Seiko
Nishin Spinning
Nishin Flour Milling
Nippon Reizo
Nihon Cement
Nippon Oils and Fats
Hitachi

Others

Keihin Electric Express Railway
Shoju Line
Taisei
Toho Railway
Tokyo Tatemono

4. Sumitomo Group⁴

Banking and Insurance

Sumitomo Bank
Sumitomo Trust and Banking
Sumitomo Mutual Life Insurance
Sumitomo Marine and Fire Insurance

Trading

Sumitomo Shoji

Takashimaya
Nippon Express
Yamashita-Shinmihon Steamship
Toyo Construction
Orient Leasing

6. Dai-ichi Kangin Group⁶

Banking and Insurance

Dai-ichi Kangyo Bank
Asahi Mutual Life Insurance
Taisho Fire and Marine Insurance
Nissan Fire and Marine Insurance
Fukoku Mutual Life Insurance

Trading

C. Itoh
Nissho-Iwai
Kanematsu-Gosho
Kawasho

Mining and Manufacturing

Furukawa
Furukawa Electric
Asahi Denka Kogyo
Yokohama Rubber
Fujitsu
Fuji Electric
Nippon Light Metal
Nippon Zeon
Kawasaki Steel
Kawasaki Heavy Industries
Sankyo
Shimido
Electro-Chemical Industrial
Niigata Engineering
Nippon Columbia
Honshu Paper
Yasukawa Electric Manufacturing
Ishikawajima-Harima Heavy Industries
Kobe Steel
Showa Oil
Asahi Optical

Hitachi
Asahi Chemical Industry
Isuzu Motors
Iseki Agricultural Machinery
Ebara Manufacturing
Chichibu Cement
Lion Dentifrice
Japan Metals and Chemicals

Others

Kawasaki Kisen Kaisha
Korakuen Stadium
Seibu Department Store
Nippon Kangyo Kakumaru Securities
Nippon Express
Shimizu Construction
Shibuya Warehouse

Tokai Group⁷

Banking and Insurance

Tokai Bank
Chuo Trust and Banking
Chiyoda Mutual Life Insurance
Chiyoda Fire and Marine Insurance

Trading

Toyo Menka
Okaya

Mining and Manufacturing

Toyota Motor
Fujikoshi
Japan Rolling Stock Manufacturing
Idemitsu Kosan

Others

Toyota Motor Sales
Fujita
Matsuzakaya
Japan Development and Construction
Nippon Shinpan

Source: Yoshihara Kunio, *Sogo Shosha: The Vanguard of the Japanese Economy*, Oxford University Press, 1962.

¹Members of the Keio-kai

²Members of the Hanshu-kai

³Members of the Fuyo-kai

⁴Members of the Daiwa-kai

⁵Members of the Sansei-kai

⁶Members of the Sankei-kai

⁷Members of the Watanabe-kai

Appendix 4

1. Purchase, sales, export, and import of the following:
 - a. coal, petroleum, gas, other fuels and manufactured products of above;
 - b. iron, nonferrous metals, manufactured products of above, ores and minerals;
 - c. machinery, equipment (including gauge and medical equipment), locomotives, ships, airplanes, and parts of above;
 - d. food, liquor and other beverages, fat, resin, tobacco, salt, and other agricultural, marine, forestry, livestock and natural products and finished products of above;
 - e. fertilizer, feed, and raw materials of above;
 - f. textile products and raw materials;
 - g. lumber, wood products, cement, glass and other kiln products;
 - h. chemical products, cosmetics and pharmaceuticals (drugs, poison and explosives, etc.); and
 - i. rubber, leather, pulp, paper, manufactured products of above, and sundry goods;
2. The development, prospecting, production, manufacturing, processing, growing, and sub-contracting of each of the items above;
3. Repair and installation, sub-contracting, leasing and management of machinery, equipment, locomotives, ships, airplanes, and parts;
4. Construction business;
5. Purchase, sales, leasing, and management of real estate;
6. Purchase and sales of antiques;
7. Warehousing;
8. Land transportation, maritime transportation, and air transportation;
9. Agency, brokerage, and wholesale of each of the items above;
10. Agency for liability insurance and for automobile insurance based on the automobile liability insurance law;
11. All and every business related to each of the items above.

Source: Alexander K. Young, *The Sogo Shosha: Japan's Multinational Trading Companies*, Westview Press, 1979.

Appendix 3

5-16 SALES OF JAPAN'S NINE SOGO SHOSHA (FY 1981)
(¥ billion)

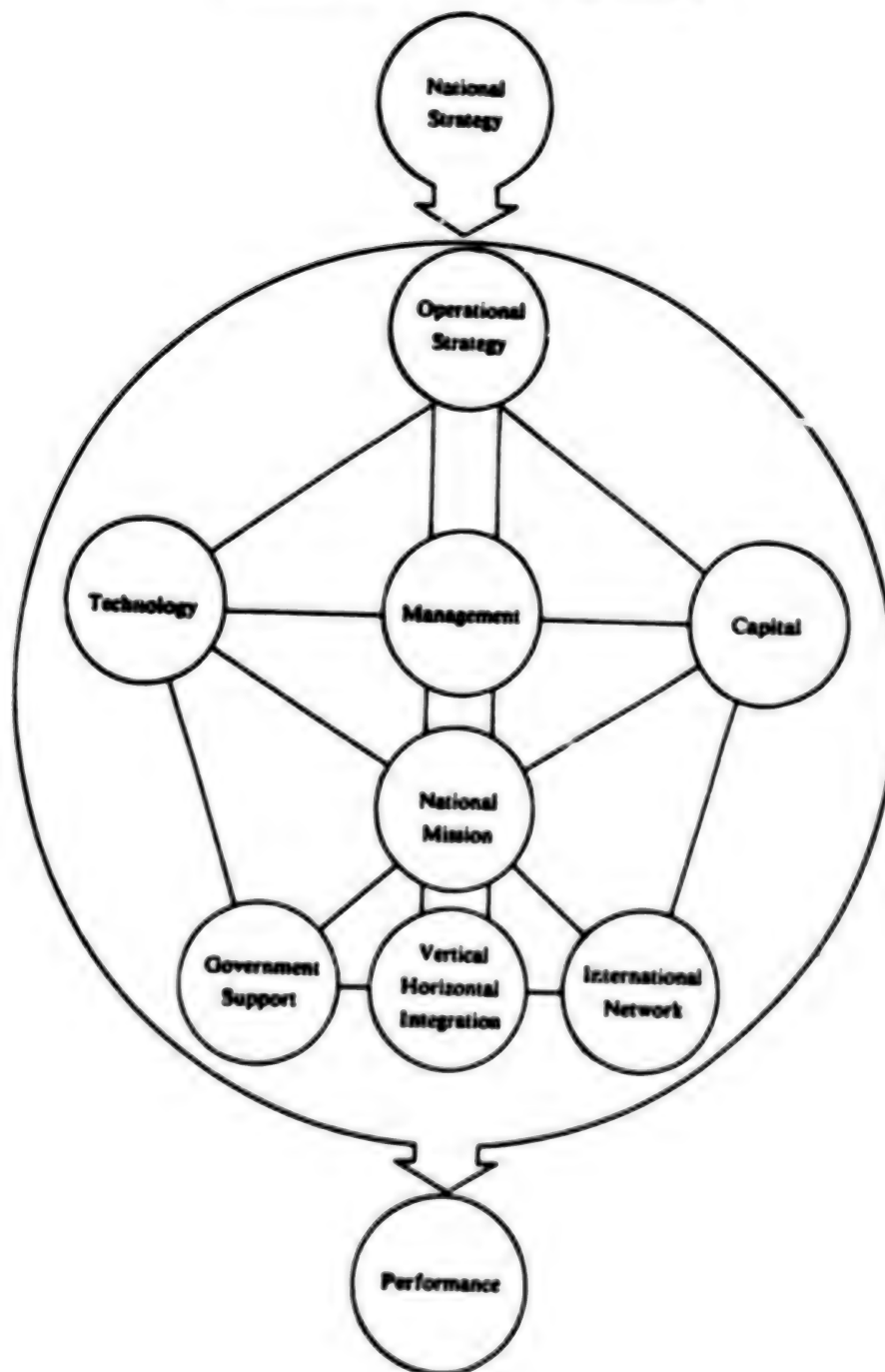
	Total	In Japan	Exports from Japan	Imports into Japan	Offshore Trade
1. Mitsubishi	14,687	5,711	2,762	4,887	1,326
2. Mitsui	13,225	5,623	2,569	3,188	1,845
3. C. Itoh	12,336	5,362	2,307	2,859	1,808
4. Marubeni	11,547	4,160	3,131	2,183	2,074
5. Sumitomo	10,964	5,573	2,837	1,677	878
6. Nissho-Iwai	7,431	2,782	1,345	2,037	1,268
7. Toyo Menka	3,715	1,407	902	940	466
8. Kanematsu Goshō	3,268	1,639	450	772	408
9. Nichimen	2,938	878	722	669	669
Total (A)	80,111	33,135	17,025	19,212	10,742
Share (%)	100.0	41.4	21.2	24.0	13.4
Japan's Trade Total (B)	—	—	34,365	32,245	—
Sogo Shosha's Share (A/B)	—	—	49.5%	59.6%	—

Source: Yukashoken-Hokokusho of each company.

Notes: Sogo Shosha's Share in 1968, 1972, 1976:	Year	Export	Import
	1968	48%	62%
	1972	50%	61%
	1976	52%	53%

Appendix 6

JAPANESE INTEGRATED BUSINESS SYSTEM



Source: J. Panglaykin.

CSO: 4100/215

ECONOMIC

JAPANESE-STYLE MANAGEMENT SYSTEM ANALYZED

Tokyo KEIEI KONSARUTANTO in Japanese May 83 pp 130-138

[Article by Chuichi Nakamura: "Secrets of Japanese-Style Managerial Philosophy," Chapter 2]

[Text] "The Philosophy of Social Harmony" and its Method of Implementation

The Management Philosophy of Harmony

The Japanese philosophy of management, which aims at "unanimous agreement" in everything, based on the "philosophy of social harmony" within a business, is regarded as an unfathomable way of thinking by many Westerners. Jacqueline Gurapan expresses this doubt, saying: "the spirit of always seeking unanimous agreement is one thing that is difficult to understand in the West with its belief that it is natural for every man to hold his own point of view."

American executives maintain their reputation by boldly proclaiming the decision they make about their work, but in Japan it is the opposite, as the originality of the individual is weakened in the process of debate and compromise in the workplace. The Japanese philosophy of management that esteems consensus based on this spirit of "unanimous agreement" appears to Western eyes as one contradiction that kills individual originality. However, in another respect, certainly it is a fact that as a form of management, this Japanese style of management has received international recognition. For example, James Johnston, the advisor on international issues at ECON center, evaluates it quite highly when he states: "they spend as much time as necessary, with full consideration, to bring about a unanimity of opinion. By doing thus, after a decision has been made, no obstacles will arise from an opposing side, and it is possible to forge steadily ahead. One thing that is well known in the West and has become a topic of debate is that Japanese managers struggle hard to figure out how to bring about interpersonal harmony, and believe that all positive results in management begin with this."

Also, this Japanese management philosophy of harmony very likely has considerable potential to produce excellent results in the area of "human management" in societies with the European type of "rigid" class structure, according to Jacqueline Gurapan, who writes as follows: "Lower class workers who suffer under the labor class system that has the European type of severe discrimination among classes have the possibility of gaining respect as an individual or

as a worker in such a Japanese type of system." As evidence of this, Gurapan cites a survey conducted in England by GULF, the large American survey company in response to a request by the Japanese government. The report states, "According to this survey, 37 percent of the British surveyed viewed Japan as 'semi-friendly,' while the majority of the British personnel working in small-scale Japanese firms stated that they were 'satisfied with their own conditions in the firm.'" However, as Gurapan points out, in order for the philosophy of harmony to be most effective in 'human management,' as a material basis of the philosophy of harmony, it is necessary to have an economic system such as that with the Japanese 'social harmony,' characterised by the 'top light, bottom heavy' seniority-ranked salaries as compared to Europe. Seniority-ranked salaries, the custom of lifetime employment, and unions inside of businesses are the three sacred treasures of the Japanese-style 'philosophy of social harmony.'

Organization of the Workplace Suitable for Philosophy of Harmony

The organization of the workplace in Japan truly corresponds to this management philosophy of harmony. The words of the well-known French journalist Edouard C. Didier, are one expression of Western ideology with respect to the "Inscrutable Japanese businessman's mind." According to Didier, "In the Japanese workplace, work is assigned to the group as a whole, and if it becomes necessary to raise the accomplishments of the group, it is possible to shift the assignments around as appropriate. However, no one will ever raise any objection to this. Even if a lazy person is given an incommensurate salary, almost no one would think this to be unusual."

Indeed, as for the degree of contribution of each individual to his work, under the seniority-ranked salary system, even if occasionally there are cases when the contribution is rewarded by a lump-sum payment, this is never reflected in the salary of the individual. Even though salary is determined by seniority, hardly anyone would complain about it. Also, the role of each person is strictly coordinated through the social order within the management, and this arrangement is known as a "social consensus."

When Japanese do their work as a group, in order to achieve the anticipated results it is necessary to make the nature of the work assigned clear to the whole group, and the workplace organization centered around two or three job team leaders (division, section, or task force leaders) works very effectively. This fact is demonstrated clearly in the incomparable "Japanese speed" seen in the mobilization of energy and the communication of information.

Of course, not all information is directly conveyed to all members of a group. As in workplaces in the West, it is communicated from chief to group. Nevertheless, the unprecedented rapidity of communication in Japan is due to the fact that in each workplace organization, direct, daily personal contact between chief and group forms the basis of communication.

This daily personal contact is maintained in Japan both temporally and spatially. In the West even subdirectors work in their own individual offices and do not have constant face-to-face contact with their subordinates, while in

Japan, in most management situations, superiors work at desks adjoining the group members on the same floor. One foreign company in Japan has individual offices but "the doors are always open." This is a clever compromise between Japan and the West, following the dictum "When in Rome, do as the Romans do."

Group Society and Team Leaders

The authority of people called "chiefs" in the Japanese working place is not unlimited as it is in the West. If one were to seek the grounds for a "feudalistic" vertical relationship in the Japanese "vertical social structure" between seniors and juniors that we will examine later, we should expect the authority of the various group leaders to be unlimited. However, there is no place in the world as weak as Japan when it comes to chiefs without authority. As long as improving the work record as a team is placed on the basis of direct individual contact, the teams can only be led by means of consensus.

Generally, this level, which is called middle management, is the key point of the Japanese "philosophy of social harmony" and at the same time is the axle and the lubricant for it to operate most effectively through the teamwork that is based on this philosophy. Western countries, which suffer from the breaking off of mutual dependence among the members of an organization, especially between superiors and subordinates, and from the lack of trust (in the ranks and hierarchy of the organization), are seeking a way to fulfill this role (of social harmony), and this has become a major task in "business reform" from the management side.

In such a setup in Japan, the team leaders in particular must be outstanding both in terms of their humanity and their work, and the effectiveness of such organization can be viewed as proven through the reality of economic growth that has been called the "Japanese Miracle." If C. C. Didier's view on Japanese management, that "even if the company president is quite ordinary, work will proceed smoothly, because he turns the helm over to his most beloved children" were to be a reality in the West, it would be quite a natural development.

Middle Management--The Worker Bees

Due to the high rate of growth of the postwar Japanese economy, expansion of the working place, expansion and refinement of organization, middle management, which has developed in large numbers as team leaders, now has a "worker bee" existence. This Japanese characteristic as a worker bee, from the standpoint of duties and responsibilities, is expressed quite bluntly in terms of the disproportionate allocation of work. As one very realistic example, in management, the monthly special compensation for a manager is 50,000 yen. In exchange for this compensation, he has the freedom to come to work when he pleases, and is not paid for overtime. However, during the period of "continuing high growth," emerging from the existence of Japanese social harmony, overtime work has increased considerably. If the manager did not receive the special compensation, but had taken overtime pay instead, the latter would be considerably higher.

When asked whether they would like to be a manager or an ordinary worker, most workers, when considering overtime compensation versus the "mere pittance" of special managerial compensation, will gladly choose the latter, which entails much harder work, is economically disadvantageous, and wears down body and spirit. This is also supported as a kind of family consciousness.

In the system of management characterized by lifetime employment and a salary system based on seniority, in which the difference in salary according to job is slight compared to Western countries, middle management naturally are the most like the "worker bee." In their work they also function as the control mechanism for Japanese "social harmony," are the essence of the humanity that supports the high rate of growth of Japan, the "miracle empire" and "Land of the Rising Sun" that has become a sensation in Western Europe. In this sense, middle management has played a truly significant role. The image of employees as worker bees that was demanded at the time of Japan's continuing high rate of growth, has made its appearance typically in this class of team leaders.

New "Vertical Social Structure"

The "philosophy of social harmony" gave birth to the seniority pay system. Not only does it depend on this, but within the social order in Japanese management it has revived the "vertical structure" of prewar days with a new form and content, which emphasizes junior and senior status, a concept quite unthinkable to business in Western countries. Conversely, the "philosophy of social harmony" is supported by this vertical structure.

When I was in France, a French economist who discussed Japanese management philosophy with me suggested the following concerning the social order in Japanese industrial society. "Even with the same group of associates, a Japanese will not talk with another as an equal. This is because the ranking is established automatically, first in the family, then by the year in which he entered the job, and by years of service. All groups as human beings are organized vertically into an oxabun-kobun (patron-follower) relationship, in the form of a senior-junior system which is vertical rather than horizontal. Here the individual exists only as a part of the organization. People share in benefits, first of all based on seniority, then merit (skill) and only finally based on the kind of job. All order cannot be transformed to be the same as a "natural order." The order is not prescribed anywhere in writing, but has its roots in this "vertical structure."

Indeed the placing of a higher value on seniority than on anything else in the social order within Japanese management (organization) could have one of its roots in vestiges of the feudalistic education that remain implanted in the minds of Japanese born in 1930 or earlier.

However, the present day "vertical social structure" basically speaking was not born of a "feudalistic psychology." It comes from a philosophy of harmony that exists in the roots of postwar Japanese management thinking. Lester B.

Kon [phonetic], president of Kon Feril [phonetic] International, characterizes the conditions for being a manager as "profit orientation for Americans and "excellence in philosophy" for the Japanese. He maintains that the reason the Japanese philosophy of management is based on Japanese "social harmony" is that postwar Japanese managers "labored over how to bring about harmony among the various employees in their own firms, (believing) that all efficiency in management starts from this. In other words, to connect pride in work with a relationship of mutual reliance was the prime element in making management effective."

We can maintain that the postwar vertical social structure was created out of a milieu that values harmony in a group society, through a subtle, spontaneous Japanese concept of social harmony that has a totally different philosophical basis from the prewar social regimen that emerged from the "feudalistic psychology" that was typical of the old Imperial Armed Forces. Since this "vertical structure" developed from a subdued conception rather than being forced upon the Japanese from a "feudalistic psychology," it had an even more positive effect on realizing the Japanese "miracle."

This democratic organization of the workplace, which was established on the basis of a Japanese concept of social harmony which, paradoxically, has as its underpinnings a vertical management structure, produced a truly "refined sectionalism." This "refined sectionalism" can be considered as follows. There are business such that competition is fostered between groups within the same workplace, within the same business and the business exists as an organic fusion of these competing groups. The business is the body that fuses together the achievements of the competition among these groups, and all the members of these groups are strongly tied to that business.

In principle, however, such a "refined sectionalism" at the same time either inhibits or makes impossible horizontal social cooperation. This point can probably also be related to what Didier says in this regard: "This makes the concept of partnership unknown to Japanese society and forces all relationships into an obligatory vertical structure. Secondarily, this explains why Japanese history lacks the 'model of an oligarchy,' and why it has been impossible to create a federated government,"

Consequently, the employees that belong to the different businesses are nothing more than race horses who have entered the starting gate at the same race-track. From the strong sense of belonging to the company, marked by this type of group existence, "outsiders" are those people who do not belong to one's own group. Japanese, especially business workers, live in a competitive atmosphere of "us" versus "them" and their conflicting behavior is motivated by the relationship between the group members versus the "outsiders." The establishment of groups of this type is responsible for the development in postwar Japanese industrial society of the type of human relationship characterized by respect, deference and love towards members of ones own group and, in extreme cases, by aggressiveness and hostility towards outsiders.

The "refined sectionalism" of this group society permeates Japan's labor unions. Didier writes as follows in this regard. "Japanese labor unions, which are organized as unions within a business, themselves take the form of a 'family' and their actions constitute harmony between labor and management, i.e., they form a mechanism of the special harmony that can be expressed by the Japanese relationship of interdependence between labor and capital. Japan's labor unions really respond to everything pragmatically, and the union itself is co-operative in paying respect to this Japanese 'model of industry.'"

It is probably true that the stronger such a Western view develops, the more the Japanese concept of social harmony will have a strong effect on Japanese labor unions and serve as an instrument for forming a group society.

The Japanese Sense of Collegiality

Such a "refined sectionalism" takes on the characteristic that the consciousness of collegiality, of everyone in the same kettle, among the members of Japanese management, is incomparably stronger than it is in the West. Of course, in discussing differences between the two, one must not forget that there is one conspicuous difference in the social background of Japanese management compared to the West. This difference is the fact that in the democratization of the postwar Japanese economy, the larger the scale of enterprises became, the smaller became the number of businesses run by large shareholding single owners. Officers in Japanese companies, with few exceptions, are not the protecting powers of a large shareholder.

Even if there are representatives of large corporate shareholders (especially financial institutions), the corporate shareholder himself is in exactly the same situation. Almost all executives work for a company as a mere bureaucrat or technician and were promoted to executive positions by competing with their peers within their company. In this sense, a Japanese executive board (and, hence, the management) can be considered as a body close to the West German concept of management specialist. Quantitative proof of this can be seen in the tendency to equalize salaries discussed above. In Japanese companies the ownership of stock by executives, including the president (or "senior representative director") is very low. Also, there are not a few people from among the union executives who are included in the management--something that is inconceivable in Western industrial companies.

This Japanese feature is one factor responsible for the creation of the special Japanese "social harmony" between labor and management which, from the European viewpoint, is a miracle in terms of the relationship between labor and capital. The existence of "collegial consciousness" as a group society in Japanese management can in no way be explained away as a vestige of prewar feudalism.

It is the very difference between capitalist society in Japan after the war and capitalist society in the West that is the key to understanding this phenomenon. In Japan, as distinct from the West, there is a common bond of a sense of collegiality, of "working for the same company" between managers (executives) and general workers, especially among management specialists, even if there are some differences in status within the company. This can be clearly understood

if one directly compares the status of labor and management from all perspectives. The larger a company is, in a different sense, the stronger does one feel the existence of the special Japanese "social harmony" and "sense of collegiality."

In Western companies, the consciousness that "classes are different" is pervasive, and in their respective daily social lives there is a great gap and discontinuity that has no comparison with Japan. In prewar Japanese society there was a differentiation and discontinuity similar to that in the West today. The existence of a "sense of collegiality" in the group society that more than anything else represents postwar Japanese human relationships functions to secure firmly the interdependence among partners in Japanese management organizations.

Interview Statistics Tell the Story

This type of sense of collegiality (or family consciousness) in group society is clearly indicated in the figures of an awareness survey that I conducted from last May through August with general management personnel as subjects in 78 companies. In this survey, I distributed a very simple questionnaire to the 78 subjects, asking them whether they regarded the three categories of companies, i.e. large shareholder companies, main banks, affiliated companies, as "familial," "quasi-familial," or "outsider" types. I sought straightforward answers to these questions. The responses by the general management subjects were as follows:

1. Regarding large shareholder companies, an overwhelming 77 respondents categorized them as "outsiders," with only one respondent categorizing them as "quasi-familial" type. The fact that in the companies surveyed there was not a single single-owned business suggests that as the scale of such a company gets larger, it follows the trend of the times and gradually loses its original form.
2. Regarding affiliate companies, 55 subjects (70.5 percent) regarded them as "quasi-familial," while only eight subjects (10.3 percent) regarded them as "familial." It can thus be concluded that a group society is formed around the personnel in the same company, and that as far as the members of a group society are concerned, an affiliated company is another group society whose members share in the advantages and have a close relationship to each other. One surprise response was that 15, or 19.2 percent, viewed affiliated companies as "outsiders."

Moreover, in the companies that exist as subsidiaries in this survey, the affiliated companies, i.e. those in a parent company relationship, were considered as "familial," and in the opposite case, the affiliated companies were considered as "quasi-familial." This can also be considered as one characteristic.

3. Regarding main banks, 70 respondents (89.7 percent), an overwhelming majority, considered them as "outsiders." In spite of the fact that the main banks interfere in the management of the companies that receive financing from them, by sending main bank executives to them, only eight persons (10.3 percent) categorized them as "quasi-familial."

As can be seen from these figures, in the case of an executive being transferred from a main bank to a company receiving financing from it, it is necessary for the executive from that bank to become a member of that company as soon as possible. This is not limited only to personnel coming from main banks. Personnel from manufacturers and trading companies who become executives or workers in affiliated companies apparently also become assimilated completely into the group societies of their (host) companies rather quickly. One wonders if this is a prime example of how greatly adaptable the Japanese are.

The subjects of this survey included only those people who attended the seminar on reform of commercial law that I conducted, and the number of companies investigated is only 4.5 percent of those listed on the Stock Exchange. However, they are all manufacturers based either in Tokyo or Osaka and cover every type of industry. Consequently, the figures in the survey rather accurately indicate the extent of the sense of collegiality (familiality) of Japanese type group societies held by employees of major companies in Japan.

The Weak but Heavy Responsibilities of Management

In such a group society, managers who function as the highest leaders have weak authority but heavy responsibilities compared to the managers who are the highest leaders in Western industrial society, and the purse that is handed over from the company is extremely light. Edouard C. Didier describes the unique characteristics of a Japanese company president as follows.

"In Japan, managerial authority means a little power and a great deal of obligation. A company president is merely someone who serves an organization that expects prosperity in everything." As far as the Japanese company president that serves such an organization is concerned, the power of the chairman of the board of directors in a company, if unfortunately he is not the oldest member at the meeting, is very limited."

In this manner, even though there are many exceptions, the Japanese company president possesses an aspect of weakness that is inconceivable to the common sense of Western industrial society. This is probably one proof of the relationship between the "vertical social structure" based on the sense of collegiality in the group society, and the philosophy of social harmony.

Of course, the leaders who had the power to bring about the growth of a small company to a large business, as their first task tried to destroy this postwar feature which now had almost the status of a faith. However, since this "model of industry" originated in the source of the concept of management in postwar industrial society, i.e. "social harmony," no matter what kind of efforts they made to refute it, as soon as their company reached a certain size, this "model of industry" automatically began to operate.

The Subdued, Spontaneous Well Being of the Group Society

The management system based on the "philosophy of social harmony" that formed this postwar group society functioned truly effectively and automatically for

the "welfare and fusion" of its members and automatically heightened the effects of this harmony. One great social effect brought about by this Japanese "philosophy of social harmony" and its system of management, was to equalize the standard of income to a degree that cannot be compared to Western society, in the economic base that played a vital role in the formation of the social and psychological structure of man, who asks the question, "What is democracy?"

Salarywise, the equalization of income brought about by the "top light, bottom-heavy" seniority-ranked salary system should probably be evaluated in terms of the well being produced by the hands of the "management camp and the laborers" themselves, who are the two constituents of the group society. The practice of lifetime employment and the excellent retirement pay system (including both mutual and company pensions) that emerged from the Japanese style "philosophy of harmony" after the war, and became firmly established by management, is also one type of "welfare" for Japanese "soft structured" society produced within management by its own hands. This evaluation should proceed from the viewpoint of a "subtle, spontaneous welfare," not in terms of something compulsory.

Of course, from the standpoint of welfare policy, there is a great difference historically between that of Western (Northern) Europe and Japan. The development of a welfare state in Western (Northern) Europe must be viewed as a result of a democratic movement aimed at "social change." At the same time, in terms of the obligation to participate, there is a problem in its compulsory nature. This "compulsion," of course, is based on a doctrine of social fairness...the historical nature of social welfare thus differs greatly, but on the other hand, in postwar Japanese industrial society, it is a fact that we cannot deny, that the philosophy of social harmony in a group society was automatically stressed by one type of "well being" in this subtle and spontaneous, soft-structured group society.

The "Philosophy of Social Harmony" Which Dislikes Dismissals

The problems of unemployment and depression most typically characterize the special features of social harmony that exist between labor and management. In advanced Western countries, the high rate of unemployment at or near two digits is causing great social uneasiness. By contrast, Japan's unemployment is remarkably low, around two percent. Of course, in Japan as well, the large manufacturers under these adverse conditions have announced personnel adjustments. However, these adjustments are completely different from personnel adjustments in the West, because personnel adjustment by large manufacturers in Japan is a very unusual practice. In Japan, entering a company usually guarantees a person lifetime employment. Actual dismissals have hardly occurred at all up to the present time, since a company, rather than disrupt the psychological bonds of the members of the group society through layoffs or salary reductions, has from the beginning selected the path that will ensure that planned retirement will proceed smoothly. In other words, Japanese lifetime employment and the unique, automatic planning nature of this group society have been a great factor in reducing dismissals.

The viewpoint that the practice of lifetime employment in Japan serves as a brake on unemployment is common in Western industrial society and is also a common viewpoint in Japan. If it had not been for this practice of lifetime employment, the phenomenon of Japan having less unemployed than Europe and the United States in the present adverse world economic situation, would not have been seen.

Of course, the practice of lifetime employment is not a uniquely Japanese phenomenon. To give an extreme example, among the miners belonging to the British Miners' Union, there are families who have worked the same mine for three generations. This trend is also seen in West Germany, and generally workers in Europe appear to hope to continue working in the area where they have been living. Nevertheless, a difference emerges because the West does not have the special philosophy of "social harmony" that is peculiar to labor and management in Japan.

The management system that is the material foundation of this "philosophy of social harmony" dislikes dismissals and on a relative basis reduces the number of unemployed. In this regard, the "philosophy of social harmony" and the management system that is its basis have really established a convenient path. Earlier I referred to this kind of reparation by saying that the group society possesses a unique, automatic sense of planning. This sense of planning refers to the system of overtime work and lump sum payments (bonuses) that have as underpinnings the "philosophy of social harmony" and the practice of lifetime employment.

In the advanced Western countries, overtime work generally requires written approval from the employees, and since they lack the Japanese philosophy of "social harmony," it is not easy to obtain the workers' consent. There is an even stronger tendency, in times of favorable economic conditions, to secure additional labor by new hirings, and to fire people in time of adversity. Moreover, in Japan there is a stronger tendency to seek part of the required labor force during a high growth period through overtime work, and during a recession proportionately to reduce the scope of personnel adjustments.

In other words, the difference between the "greater flexibility" of Japan in its mechanism for regulating the required labor force which has as its basis the "philosophy of social harmony," and the "greater rigidity" of Western industrial society is one factor contributing to generating this difference in rate of unemployment.

Also, the lump sum (bonus) payment is one of the material bases of the Japanese "philosophy of social harmony" and at the same time it provides sustenance for the great flexibility in Japanese management. There is probably no issue as difficult to explain to Western laborers than this lump sum payment. This is because as a rule it does not exist in the salary payments to Western workers.

This bonus system, which occupies a major part of the Japanese salary system is a truly convenient method of salary payment for the "dam" method which is

based on the philosophy of social harmony and dislikes dismissals. For example, if the eight months' bonus given during good economic times is reduced to four months' bonus during a recession, the personnel expenses per person are reduced from a 20 months' portion to a 16 months' portion. That is, except for social security expenses, a 20 percent reduction in labor expenses is achieved.

Consequently, on the basis of this Japanese "philosophy of social harmony," the payment of bonuses is reduced during economic depressions thus avoiding personnel adjustments, making it possible to avoid injuring the psychological bond among the workers, while at the same time preserving the labor force required during healthy economic times. Thus we cannot overlook the relationship between the "dam" type of management and the "philosophy of social harmony."

Hiring of New Graduates and the "Philosophy of Social Harmony"

New graduates in Western Europe during the present depression confront the very serious problem of unemployment on an empty stomach directly after graduation, and even if they spend the entire year searching for work, they cannot find suitable employment. In Western Europe, loss of employment by persons who found jobs for the first time in their lives accounts for more than half of the total unemployed. Viewed from the standpoint of European youth, the situation for new graduates in Japan is quite a different story. Didier explains one of the causes for this difference between Europe and Japan as follows.

"Every spring, members of industry in Japan hire many young people on the basis of both moral and occupational plans in order to mold them into their corporate image. These newly hired youths will never be fired, as long as no ethical problems arise in their work. This probably accounts, in Europe for such comments as 'What extravagant paternalism!,' 'What collective possessiveness!,' 'What do they mean, management?!'"

Indeed, there is an extremely great difference in the actual numbers and percentage of newly hired graduates in Western Europe and Japan. One of the reasons for this difference, as Didier points out, is that it is only natural for doubts raised above to arise in terms of Western common sense, if one is to require an ethical plan to parallel the occupational plan. If a foreigner expresses this kind of doubt to a Japanese, he is likely to receive such responses as "You harbor such doubts because you are a foreigner," or "That's because you don't know what constitutes managerial authority in Japan."

The moral plan for preventing young workers from falling into unemployment thus causing social unrest stems unequivocally from the aim of preventing the automatic debilitation of the "philosophy of social harmony." We can say that the seniority rank salary system that constitutes the system of management that supports the "philosophy of social harmony" lies at the base of the occupational plan that supports this moral plan. That is because, from the overall standpoint of labor cost, in the seniority rank salary system, the age structure of the employees is in the form of a pyramid, and the wider its perspective, the relatively lower is the cost of labor, and the cost per unit of labor becomes cheaper.

For Japanese business, which has maintained high growth for 20 years since emerging from the period of postwar confusion, the seniority rank salary system on the one hand performs the function of serving as the material basis for the "philosophy of social harmony," and on the other hand, in spite of the same continual increases in salary, constantly has continued to hire young workers and is a convenient device for assuming the function of lowering relatively the unit labor cost. For this device to be maintained, serving as the basis for implementing the dam type of management, is an indispensable means for business to secure efficiency. It is in this sense that I maintain the value of the existence of the occupational plan.

"Social Harmony" Between Parent and Subsidiary Company and its System

The "philosophy of social harmony" has produced a relationship of harmonious mutual dependence between parent and subsidiary (subcontractor) companies that does not exist in European or American industrial society. In Japan generally they are closely intertwined, having mutually interlocking domains of advantage to their respective group societies, and it is very common for there to be organized, continuous exchange of information between parent subsidiary companies in the areas of technology, economics and management. Europe and the United States lack this kind of communication. The desired relationship between parent company and subcontracting manufacturer is one in which the subcontractor appears to be a division of the parent company, so that the latter can depend on the parts manufacturer for one part of the production process. This means that the parent company can rely on the subsidiary for the same type of parts as the parent company itself produces. This relationship between parent company and subsidiary differs greatly in Japan as contrasted with the West.

We can probably say that in Europe and America such a desirable relationship does not exist in many cases. In Europe and the United States the subcontractor regards himself as a business that is totally independent of the parent company. The relationship with the parent company is a contractual one basically involving the advantages and disadvantages of management on both sides. Simply stated, the subcontractor calculates the price of a part by computing the cost required for producing the parts ordered by the parent company and adding a suitable profit to this. Only if the parent company agrees to this price is a contract drawn up for ordering the parts.

In case the parent company does not approve the price the subcontractor has designated for the part, no contract is made. It is virtually impossible, except in unusual circumstances, for a contract to be drawn up without regard to the results of the inspection by the parent company. The terms of the contract are followed strictly, and it is required that the subcontractor strictly obey its terms. Except in unusual cases, there is no assistance from the parent company to the subcontractor. When a parent company selects a parts manufacturer, price competitiveness is more important than reliability or loyalty. For the parent company, the deciding factors more than anything else are whether the product design and manufacturing process are suitable to its own required quality and how much cheaper the price will be compared to other subcontractors. The relationship between parent company and subcontractor is antagonistic, and reciprocity is established only through a contract, on a case by case basis.

If we examine the order contract between a parent company and a subcontractor in Japan, we see that first of all, when the parent company order parts from the subcontractor, it indicates informally the price of the part it will receive and the profit that can be made in manufacturing. The subcontractor subtracts the profit from the order price to calculate the cost. Here the relationship between parent company and subcontractor is not antagonistic; rather, it is one of mutual reliance under the guidance of the parent company.

Of course, there are occasionally cases in which even if the production projections of the parent company itself become upset, in order to preserve quality, it will refuse to accept delivery of parts that are below standard. There are also cases in which the parent company not only inspects the samples of the subcontractor's goods, but also checks the process of parts manufacture and production capacity. The relationship between the parent company and the subcontractor is a cooperative one in which there is systematic, continuous exchange of communication and services in the three areas of technology, economics, and management. On the basis of such a relationship, it is considered only common sense to visit each other's plants and hold monthly meetings.

The parent company assigns many management staff to work for the subcontractor. The parent company shares both time and work by outstanding members of its own staff in order to help with financing and provide technical assistance. It does not take much notice of the increase in costs that this may entail, since in many cases, the parent company is a major shareholder in the subcontracting company and/or is providing it financial and technical assistance.

That is, the relationship between parent company and subcontractor in Japan is not antagonistic as it is in the United States and Europe, but can be viewed as a relationship of mutual interdependence under leadership of the parent company which has this quality of "social harmony."

In Japan, there are no cases of (deceptively produced) defective goods, and Japan has the advantage of relatively low unit costs. It is one of the reasons why Japanese industry is strongly competitive internationally.

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CSO: 4105/254

ECONOMIC

DRAFT LAW FOR STRUCTURAL IMPROVEMENT OF DESIGNATED INDUSTRIES

Tokyo TOKUTEI SANGYO KOZO KAIZEN RINJI SOCHIHOUAN in Japanese Feb 83 pp 1-48

[Passages enclosed in slantlines were underlined in original; paragraphs numbered as in original unless indicated in brackets]

[Text] [Following passage is text of title page.] Draft of Law for Temporary Measures for Structural Improvement of Designated Industries

("The Law on Temporary Measures for Stabilization of Designated Depressed Industries" as revised in part by "The Draft Law on Temporary Measures for Stabilization of Depressed Industries")

February 1983

Ministry of International Trade and Industry [End title page]

[Outline] /Law on Temporary Measures for Structural Improvement of Designated Industries/

(Law 44, 1978)

(Note: Lined portions are points revised)

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Section I. General Provisions

(Objective)

Article 1. Given the severe economic conditions extant both domestically and internationally, the objective of this law, /with respect to designated industries,/ is to develop a policy /for basic structural improvement/ matching the actual situation and, through a planned disposal of facilities /and production, and management scope or production method/ and production means, to contribute to employment stability and stabilization of related small and medium enterprises and to the healthy development of our people /through the promotion of designated industries./

/(Designated Industries)/

Article 2. In the context of this law, /"designated industries"/ refers to the industries affiliated with the manufacturing industries listed below; and those industries so designated by government ordinance are designated industries.

1. Manufacturing industries producing semifinished steel products or ordinary steel ingots made using electric furnaces
2. Aluminum smelting industries
3. /Chemical fiber manufacturing industries/
4. /Chemical fertilizer manufacturing industries/
5. /Metal alloys manufacturing industries/
6. /Western paper manufacturing industries and cardboard manufacturing industries/
7. Petrochemical industries/
8. In addition to those stipulated above, those industries which, due to fluctuations in economic conditions at home and abroad, can be designated by government ordinance,

provided that /a great proportion of the production facilities producing commodities related to those industries are no longer appropriate for those industries, either in scope or in method of manufacture,/ and, further, this situation is deemed to be of long-range duration thus causing long-range instability for a great proportion of those involved in the operation of those industries (limited to those industries in which the /raw materials and energy used in their production form a great proportion of the production cost/) and the disposal of facilities (abandonment or long-term storage or suspension (limited to those facilities whose production capacities can be reduced) or transfer (limited to those cases in which a transferred facility is abandoned) whereby the facility no longer functions as a producer. Remainder is the same), and, if /production or scope of management, or application of appropriate manufacturing methods will structurally improve the situation, and the concerned industries are necessary for the development of the people's economic welfare, they can be so designated.

2. Those engaged in the various manufacturing industries stipulated above can make application to their competent minister to be designated in accordance with these regulations.

3. On receipt of the aforementioned application the competent minister will take the necessary steps to designate that industry under the provisions of paragraph 1 provided that the applicants constitute a majority of the manufacturing industry which they represent, and, further, that it be limited to cases where the applicants' activities represent the major proportion of the activities of the industries in question.

4. In order for the competent minister to use the same process of designating by government ordinance under the provisions of paragraph 1, /No 8/ he must obtain the recommendations of an advisory council (in which event there is no other qualified advisory organ would be the Industrial Structure Deliberation Council, hereinafter referred to as the concerned council) as to the appropriateness of the application in the light of objectives.

5. When any of the industries listed under /paragraphs 1 through 7/ no longer qualify to remain on the list due to nonconformance with the criteria established in /paragraph 8/ because of changes in economic circumstances, the provisions of this ordinance are no longer applicable and the designation of that portion of the manufacturing industries to which it applied will be revoked.

6. Revisions and establishment of designated industries under the criteria of /paragraph 1, No 8/ will not be made after 1 January 1986.

Section II. /Structural Improvement of Designated Industries/

/(Basic Plan for Structural Improvement)/

Article 3. When there has been a designation based on paragraph 1 of the previous article, the competent minister will immediately obtain the advice of the concerned council regarding each /designated industry/ and will decide on the basic plan for /structural improvement/ of the /designated industry/. (Hereinafter referred to as /"basic structural improvement plan."/)

2. The criteria for applying the /basic structural improvement plan/ are as follows:

- (1) /Structural improvements objectives/ within /the objective year./
- (2) Items related to those facilities which should be disposed of and their type of manufacturing activity and production capacity, method of disposal and time required for disposal.
- (3) New facilities that need to be built in conjunction with the disposal of facilities listed above, or, the restriction or prohibitions for expansion or renovation. (Items hindering the renewal or improvement of targeted facilities are excluded. Remainder is the same.)
- (4) /Items relative to the suitability of manufacturing procedures,/ management methods or production.
 - (1) /Pooling of production, sales, purchasing, storage or transportation of items of manufacturing, mergers, transfer of all or important elements or any actions related to method or procedures (Hereinafter abbreviated to "operational cooperation") and whatever capital investments needed for operational cooperation and other items concerned with operational cooperation (when the competent minister, after consulting with a broad sector of the designated industry decides on the course of operational cooperation, this general framework plan will also be included.)
 - (2) /Items related to capital investments needed for raising quality or product performance or, for reducing energy and raw materials costs.
 - (3) /Items related to new products or the development of new technology./
- (5) Items related to disposal of facilities under /No 2/ or /operational cooperation under 1 above/ which ought to be conducted along with the transfer of activities (including measures designed to provide employment stability).

3. The type of facility that can be included for disposal under the /basic structural improvement plan/ is determined on a /designated industry/ basis by government ordinance.

4. The method of calculating production capacity of facilities as stipulated in paragraph 2, /No 2/ will be determined by the competent ministry, as provided for in the previous paragraph, on the basis of government ordinances pertinent to the type of facility.

5. The /basic structural improvement plan/ must take due consideration of job security of the workers in the concerned /designated industries/ as well as of the management of the related small and medium enterprises.

6. When its views are sought in accordance with paragraph 1, the concerned council must, in forming its opinions, hear out the views of the major associations and labor unions connected with the /designated industries/.

7. When in accordance with the stipulations of paragraph 1, the competent minister is to make a determination regarding the /basic structural improvement plan/, he must announce his actions without delay.

8. When the competent minister believes that economic conditions make it necessary, he must obtain the views of the concerned council and revise the /basic structural improvement plan/.

9. The provisions of paragraph 6 are that when the concerned council's views are solicited on the basis of provisions of the preceding paragraph, the provisions of paragraph 7 apply to the provisions of the preceding paragraph.

(Efforts of the Entrepreneurs)

Article 4. When the /basic structural improvement plan/ concerning a /designated industry/ is announced in accordance with article 3, paragraph 7, the entrepreneurs belonging to the /designated industry/ must, in compliance with the determinations contained in that /basic structural improvement plan/, dispose of the facilities, change production, or management system, or method of production, or whatever other major acts are required to implement the plan to the best of his ability. (If a change occurs due to provisions of article 3 paragraph 8 then, after such change takes place. Remainder is the same.)

(Instructions Concerning Enforcement of Joint Action)

Article 5. If the competent minister concludes that the principals belonging to a specific concerned /designated industry/ cannot, by their efforts alone, effect the disposal of facilities or renovation or rebuilding of facilities in accordance with the provisions of the /basic structural improvement plan/ or, because of restrictions or prohibitions (hereinafter called "disposal of facilities, and so on") and, or, the continued affiliation of a majority of those entrepreneurs in the concerned /designated industries/ will be difficult, and, if this will adversely affect the healthy growth of the economic welfare

of the people, he can, after hearing the views of the concerned council, order that the entrepreneurs affiliated to such /designated industries/ undertake joint action with respect to the disposal of facilities, and so on.

2. The directives define the period and the contents of the joint actions required under the provisions of the previous paragraph and are carried out upon announcement.

3. The stipulations of article 3 paragraph 6 apply when the concerned council's views are solicited under the provisions of paragraph 1.

(Details of Joint Action)

Article 6. Details of the joint action stipulated in paragraph 1 of the previous article must conform to each of the following:

1. It must not exceed the level necessary to dispose of facilities for disposal determined under the /basic structural improvement plan./
2. It must not adversely affect the well being of the general public or related enterprises.
3. It must not be unjustly discriminatory.
4. It must not adversely affect the position of the employees of entrepreneurs who are ordered to undertake the joint disposal action.

(Changes, etc., in Directives Concerning Joint Action)

Article 7. When the competent minister determines that the directives for joint action issued in compliance with article 5 paragraph 1 no longer conform to the various qualifications listed in the previous article, he may change his directives or cancel them.

2. The provisions of article 5 paragraph 2 apply in the case of the previous paragraph.

(Report of Joint Action)

Article 8. Those receiving directives based on provisions of article 5 paragraph 1 (when there is a change under provisions of the previous article, paragraph 1, the directives following the change; the remainder is the same) and undertaking joint action under such directives, must, without delay, make a report to the competent minister regarding the items for which they were given direction. When these directives are amended or abolished, the same applies.

(Approval of Business Cooperation Plans)

/Article 8, Sub 2. If two or more entrepreneurs affiliated with a designated industry wish to engage in business cooperation (hereafter called "cooperating

business") they must jointly develop a plan for business cooperation relative to their enterprises (hereinafter called "business cooperation plan") under the provisions of the basic structural improvement plan applicable to their concerned designated industries and present such plan to their competent minister and receive approval that such a business cooperation plan is appropriate.

/2. In the business cooperation plan, the following items must be included:

/ (1) The improvement envisioned through such a business cooperation plan.

/ (2) The names of those who will participate in the business cooperation.

/ (3) The kind of business cooperation and the method of bringing it about.

/ (4) The time period for business cooperation.

/ (5) Items relative to the capital investments required in conjunction with the business cooperation.

/ (6) Other items stipulated by the directive from the competent ministry.

/3. When the competent minister receives an application for approval of paragraph 1, and he determines that the business cooperation plan meets the following conditions, he will give approval.

/ (1) It is a particularly necessary step in order to meet the requirements for structural improvement within the year's objectives stipulated in the basic structural improvement plan, and, further, is applicable in terms of meeting the requirements of business cooperation as outlined in the basic structural improvement plan.

/ (2) Promotion of structural improvement of concerned designated industries through the establishment of appropriate competition between the business cooperators involved in the concerned cooperative business plan and other business.

/ (3) That it not be such an activity as will adversely affect the profits of other related businesses or the general public.

/ (4) That it not be such an activity that will cause undue harm to the position of the employees of the enterprises involved in the concerned business cooperation plan.

/(Amendments to Business Cooperation Plan)

/Article 8, Sub 3. Those receiving approval under paragraph 1 of the preceding article, must obtain further approval from the competent minister when they wish to change details in the business cooperation plan.

/2. When the competent minister determines that the business cooperation plan approved under provisions of paragraph 1 of the preceding article do not qualify under the criteria listed in paragraph 3 of the same article (when there is an approval for revision under provisions of the previous paragraph, then the changed plan. Remainder is the same.) he must so advise the concerned business cooperators to revise their business cooperation plan and revoke the existing approval.

/3. The provisions of paragraph 3 of the preceding article apply in the case of approval under paragraph 1.

/(Securing of Capital)/

Article 9. In cases of disposal of facilities, the appropriateness of /production or management system, or method of production/ or other measures under the provisions of the /basic structural improvement plan/, the government will assist to the extent possible in securing necessary capital.

/(Tax Exemptions)

/Article 9. Sub 2. If an enterpriser affiliated with a designated industry undertakes the disposal of facilities based on provisions of the basic structural improvement plan (limited to abandonment. Remainder within this paragraph is the same) and if that enterpriser suffers losses as a result of the disposal of the facilities, under provisions of the ordinary tax special application law (Law No 26, 1957), special measures will be allowed under the provision to carry over losses under the corporate tax structure.

/1. The registration licensing tax and/or corporate tax of entrepreneurs who receive approval under article 8 sub 2 paragraph 1 (approvals for changes under provisions of article 8 sub 3 paragraph 1 are included. Remainder of this section unchanged) will be reduced provided they are legal bodies established as a result of concerned approval or established as a result of concerned approval of capital subscription under the provisions of the ordinary special taxation measures law.

/3. With respect to the entrepreneurs and corporate bodies stipulated in the preceding paragraph, in accordance with the provisions of the local tax law (Law No 226, 1950) appropriate measures will be taken regarding real estate taxes.

/4. When an entrepreneur affiliated with a designated industry (including those no longer affiliated as a concerned designated industry because of a change in industrial sector) newly acquires or produces or builds equipment or facilities under the provisions of the basic structural improvement plan

as it relates to his concerned industry he can, under the provisions of the ordinary taxes special measures, take special depreciation./

(Employment Stability, etc.)

Article 10. When engaging in /business cooperation/ or disposal of facilities in accordance with stipulations of the provisions for his industry under the /basic structural improvement plan/, the business operator of the /concerned designated industry/ will consult with the labor union affiliated with his place of business (if there is no labor union at this place of business, then, he must consult with a representative of a majority of the employees) and exert his efforts to assure that unemployment will be prevented as well as taking other measures necessary to secure jobs for the employees.

2. With respect to workers employed by a /designated industry/ and when the said /designated industry/ is disposing of its facilities under the provisions of the /basic structural improvement plan/ or is /changing its business/, or is taking some other related action, the government will take necessary action to assure that unemployment will be prevented as well as take other measures to stabilize the employment situation.

3. The national government and local autonomous bodies will take necessary actions to stabilize the livelihood and work of those workers who were employed by the enterprises described in the previous paragraph by such means as providing jobs training, employment counseling, and the like.

4. The national government and local autonomous bodies will take necessary action to stabilize the management of the small and medium enterprises related to the enterprises stipulated in paragraph 2.

(Nonapplicability of Law Relating to Prohibition of Private Monopoly and Realization of Fair Trade)

Article 11. The provisions of the law pertaining to prohibition against private monopolies and realization of fair trade (Law No 54, 1947) do not apply in the case of individuals who act in concert under the directives of article 5 paragraph 1. However, this does not apply where unfair trade practices are used.

(Relationship With the Fair Trade Commission)

Article 12. When the competent minister wishes to issue a directive based on the provisions of article 5 paragraph 1 he must get concurrence of the Fair Trade Commission.

2. When the competent minister accepts a notification based on the provisions of article 8, he must, without delay, notify the Fair Trade Commission as to its receipt.

3. When the Fair Trade Commission determines that the contents of the joint action undertaken under directives issued in compliance with article 5

paragraph 1 no longer conform to article 6 paragraphs 1 through 3, it can petition the competent minister to amend or rescind the directives under provisions of article 7 paragraph 1.

/4. When the competent minister, upon receiving an application for approval based on article 8 sub 2 paragraph 1, determines it is necessary, he may send a copy of the application to the Fair Trade Commission.

/5. In the instance when the competent minister has sent a copy of the application to the Fair Trade Commission in accordance with the provisions of the preceding paragraph, and wishes to approve the business cooperation plan, under article 8 sub 2 paragraph 1, he must so inform the Fair Trade Commission. In addition, the competent minister will provide his views as to the management situation of the operators affiliated with the designated industries as related to the business cooperation plan. He must also advise the status of the competition and expected effects the business cooperation plan will have on such competition.

/6. The Fair Trade Commission upon notification of the business cooperation plan, under the provisions of the preceding paragraph, will provide the competent minister with an opinion.

/7. When the Fair Trade Commission considers that there has been a violation of the private monopolies prohibition law or that unfair trade is being conducted by those approved to conduct joint business operations under the provisions of article 8 sub 2 paragraph 1 on which the commission has sent an opinion to the competent minister, it may communicate its concerns to the competent minister.

/8. When the competent minister is notified under the provisions of the preceding paragraph, he can give a counteropinion relative to any changes in the economic situation referred to in paragraph 5 to the Fair Trade Commission.

/9. When the competent minister receives a notification based on the provisions of paragraph 7, and, when the reference notification concerns the business cooperation plan and conforms to the stipulations in article 8 sub 3 paragraph 2, he will take the steps outlined in that paragraph with respect to the business cooperation plan./

Section III. /Trust Fund for Designated Industries/

Chapter I. General Provisions

(Objective)

Article 11. The objective of the /trust fund for designated industries/ is: to promote the planned disposition of facilities of /designated industries/, to guarantee the loans required for this work and to facilitate these activities.

(Legal Person Status)

Article 14. /The trust fund for designated industries/ (hereinafter called "the fund") will be a legal person.

(Number)

Article 15. A fund, limited to one, will be established.

(Capitalization)

Article 16. The capitalization of the fund at the time of establishment shall equal the total amounts subscribed to it by all institutions except the Japan Development Bank.

2. When necessary, on approval of the minister of finance and the minister of international trade and industry (hereinafter called the ministers of finance and ITI), capitalization of the fund may be increased.

(Prohibition Against Refunds of Shares Held)

Article 17. The fund cannot make refunds against capital shares.

2. The fund cannot acquire shares of interest held by capital investors and cannot receive such shares for the purpose of investment rights.

(Transfer of Share Interests)

Article 18. Capital investors other than the Japan Development Bank can transfer title to their shares of interest.

2. The transfer of shares of interests belonging to capital investors other than the Japan Development Bank cannot be recognized, with respect to the fund or other third parties, until all the items of article 52 paragraph 2 have been truly recorded.

(Name)

Article 19. The fund must include within its name the words /designated industries trust fund/.

2. Whatever is not part of the fund must not use the words /designated industries trust fund/ as part of its name.

(Registration)

Article 20. The fund must be registered in accordance with government ordinances.

2. Items that require registration in accordance with the preceding paragraph cannot be counteracted to third parties until such registration has been accomplished.

(Applicability of Civil Law)

Article 21. Provisions of Civil Law (Law No 89 of Meiji 29), Article 44 (Capability of Illegal Acts by Juridical Persons) and Article 50 (Address of Juridical Persons) shall apply to the fund.

Chapter II. Establishment

(Originators)

Article 22. More than 15 persons having academic experience in industry or in financial institutions must be originators of establishment of the fund.

2. The originators shall draw up the bylaws and business plan and must approach entities other than the Japan Development Bank for subscriptions to the fund.

3. The items required to be included in the business plan mentioned in the previous paragraph shall be determined by ministerial ordinances of the Ministries of Finance and ITI.

(Approval for Establishment, etc.)

Article 23. After obtaining subscriptions to the fund as prescribed in paragraph 2 of the preceding article, the originators must present the bylaws and business plan to the ministers of finance and ITI and apply for approval.

Article 24. When the ministers of finance and ITI intend to give approval, they must examine the application to see if it conforms to the below listed items:

(1) That the establishment procedure, the bylaws and the business plan and contents must conform to the provisions of the law.

(2) That there are no false entries in the bylaws and business plan.

(3) That it can be determined that the business and its operation will be conducted in a healthy manner and that it definitely contributes to the planned facilities disposal of manufacturing industries.

2. When the ministers of finance and ITI have given approval in accordance with the provisions of the preceding paragraph, they must, without delay, select from among the candidates recommended by the originators a chairman or someone who can be the responsible custodian.

3. The chairman or person named to be custodian in accordance with the provisions of the preceding paragraph will become the chairman or the custodian when the fund is established, in accordance with the provisions of article 30 paragraph 1.

(Continuity of Administration)

Article 25. When the person who is to be the custodian of the fund has been designated in accordance with paragraph 2 of the preceding article, the originators must, without delay, transfer the administrative duties of the fund to the person who will be fund custodian.

2. The person who is to become chairman, upon taking over the administrative duties in accordance with the provisions of the previous paragraph, must, without delay, request payment of the subscribed amounts to the fund from the Japan Development Bank and others.

(Registration of Establishment)

Article 26. On receipt of the funds based on paragraph 2 of the preceding article the person designated to be chairman must, without delay, register the fund in accordance with provisions of government ordinances.

2. Registration of the fund will establish it.

Chapter III. Control

(Items for the Bylaws)

Article 27. The following items must be recorded in the bylaws of the fund:

1. Objective.
2. Name.
3. Location of office.
4. Capitalization, other financial data.
5. Items relating to officers.
6. Items relating to the deliberation council.
7. Items relating to its business and procedures.
8. Financial and accounting items.
9. Items pertaining to amendments to the bylaws.
10. Manner of public notification.

2. Revisions or amendments to the bylaws of the fund are not effective until they have received the approval of the ministers of finance and ITI.

(Officers)

Article 28. The fund will have, as its officers, one chairman, up to three board members and up to two custodians.

(Officers' Duties and Limits of Authority)

Article 29. The chairman of the fund represents the fund and administers all of its work.

2. The board members, in accordance with the bylaws, assist the chairman and conduct the affairs of the fund. In the event of the chairman's inability to administer his work they will administer the work in his place. When the post of chairman is vacant, they will assume the administrative duties of the fund.

3. The custodian audits the work of the fund.

(Appointment of Officers)

Article 30. The chairman and the custodian of the fund are appointed by the ministers of finance and ITI.

2. The board members are appointed by the chairman with the approval of the ministers of finance and ITI.

(Terms of Officers)

Article 31. The term of office of the officers will be 3 years. Terms of officers appointed to fill vacancies shall be for the remaining term of office for which the appointment is being made.

2. Officers can be reappointed to office.

(Ineligibility for Office)

Article 32. Employees of the government or local public autonomous bodies (excluding nonregular employees) cannot be officers of the fund.

(Removal of Officers)

Article 33. When any officer in the conduct of his duties as officer of the fund becomes ineligible to hold office in accordance with provisions of the preceding article, the ministers of finance and ITI must remove that officer from the fund.

2. When an officer, in the pursuit of his duties, falls into one of the following conditions, or otherwise is deemed unsuited to be an officer, the ministers of finance and ITI or the chairman of the fund may remove that officer from the fund.

(1) When it is determined that the officer is unable to continue to function in his duties due to mental or physical condition.

(2) When there is a violation of responsibilities relative to his office.

3. When the chairman of the fund wishes to remove a board member in accordance with the provisions of the preceding paragraph he must obtain approval from the ministers of finance and ITI.

(Prohibition of Other Employment for Officers)

Article 34. Officers may not become officers of other organizations which have profit objectives nor can they engage in other profit-making businesses of their own. However, if the ministers of finance and ITI give their approval, this restriction need not apply.

(Limitations of Representative Authority)

Article 35. In matters where there is a conflict between the interest of the fund and of the chairman, the chairman has no representative authority insofar as the fund is concerned. In such instances, the custodian will represent the fund.

(Deliberation Committees)

Article 36. A deliberation committee will be established within the fund to discuss matters of importance relative to management of the fund.

2. The deliberation committee will have no more than 20 members.

3. Members of the deliberation committee will be appointed by the chairman with the approval of the ministers of finance and ITI. The candidates will be persons with academic experience in industry and/or in finance.

(Appointment of Staff)

Article 37. Staff members of the fund will be appointed by the chairman.

(Officers and Staff as Public Officials)

Article 38. The officers and staff of the fund, in accordance with the Criminal Code (Law 45, Meiji 40) shall be treated as employees engaged in the public service.

Chapter 4. Business

(Business)

Article 39. In order to attain the objectives outlined in article 13 the fund will engage in the following activity:

(1) Loan guarantees for financial borrowings by /designated industries/ necessitated as a result of planned disposition of facilities or other funds needed for disposal of concerned facilities.

(2) Transactions related to the foregoing activities.

2. The loan guarantees described in the first half of the preceding paragraph will apply to loans made by enterprises affiliated with /designated industries/ which, under the basic /structural improvement plan/, borrow funds necessary for disposal of facilities or of concerned facilities or funds needed for subsidies paid to enterprisers who dispose of concerned facilities (includes funds needed to pay concerned subsidy payments when such subsidy payments are required).

3. The fund will apply its funds to the activity outlined in the first half of paragraph 1, such funds being those invested in accordance with the provisions of article 16 paragraph 1--and invested with approval obtained in accordance with paragraph 2--and those received from investors other than the Japan Development Bank and earmarked for the settlement of guarantees held by the fund in accordance with the first half of paragraph 1 as relates to funds for activity. (In accordance with ministerial ordinances of the Ministries of Finance and ITI each year when profits or losses are shown in the Profit and Loss statements, there will be that amount of increase or decrease in capitalization.)

(Commissioning of Business)

Article 40. With the prior approval of the ministers of finance and ITI, the fund is able to commission a part of its business over to the Japan Development Bank or other financial institutions (excluding decision-making functions relative to loan guarantees).

1. Regardless of other legal provisions which may be applicable, the Japan Development Bank and other financial institutions may accept commissions from the fund in accordance with the provisions of the preceding paragraph and may conduct such commissioned business for the fund.

The officers and staff of financial institutions which accept and undertake work of the fund in accordance with provisions of paragraph 1, will, under provisions of law, be treated as public officials insofar as applicability of the Criminal Code is concerned.

(Standard Operating Procedures)

Article 41. Before commencing operations, the fund must develop a written standard operating procedure and have it approved by the ministers of finance and ITI. Approval must also be obtained for amendment of this procedure.

1. The standard operating procedure cited in the preceding paragraph must contain the items stipulated by ordinances of the Ministries of Finance and ITI as well as the procedures outlined in article 39 paragraph 1 item (1).

Chapter 5. Licenses and Accounting

(Fiscal Year)

Article 42. The fiscal year of the fund will begin each year on 1 April and end on 31 March of the following year.

(Approval of Budget and Other Matters)

Article 43. Each fiscal year, the fund will establish its budget and business plan and must have them approved by the ministers of finance and ITI before the beginning of the fiscal year. The same approval procedure will be required in cases of changes to the budget or business plan.

(Various Financial Forms)

Article 44. Each fiscal year, the fund will complete an inventory of assets, chart of loans outstanding, profit and loss statement (hereinafter called "various financial forms") and, within 3 months after the close of each fiscal year, must have them approved by the ministers of finance and ITI.

2. When presenting the various forms to the ministers of finance and ITI in accordance with the provisions of the preceding paragraph, the fund must append the business operations report, settlement of accounts according to the detailed breakdown of the budget, the financial forms and the settlement of accounts forms for the relevant years along with comments from the custodian.

(Transmittal of Documents)

Article 45. When it receives approval, in accordance with provisions of article 43, or in accordance with paragraph 1 of the preceding article, the fund must send the operations plan, financial plan and all related documents and various forms to the investors.

(Debts)

Article 46. In approval of the ministers of finance and ITI, the fund may contract short-term debts.

2. The short-term debts described in the preceding paragraph must be liquidated within the first year in which they are contracted. However, when liquidation is not possible due to lack of funds, the portion that cannot be liquidated can be carried over to the subsequent fiscal year with the approval of the ministers of finance and ITI.

3. The short-term loans carried over into the next year in accordance with the provisions of the preceding paragraph must be liquidated within 1 year.

(Use of Surplus Funds)

Article 47. The fund cannot use surplus business funds in any manner other than those specified below:

- (1) Holding government bonds or stocks specified by the ministers of finance and ITI.
- (2) Deposit with the capital management division.
- (3) Deposit with the financial institution to which the loan is to be made in accordance with the provisions specified by the ministers of finance and ITI which is further specified in a contract with the fund (limited to those provided for by the ministers of finance and ITI) under the provisions of Article 39 paragraph 1 (1).
- (4) In addition to those delineated in the preceding paragraph, deposits to those financial institutions such as banks stipulated by the ministers of finance and ITI and deposits in postal savings accounts.
- (5) Monetary deposits to banks and trust companies engaged in trust activities.

(Standards for Payment of Salaries and Severance Pay)

Article 48. When the fund wishes to establish standards for payment of salaries and severance pay for its officers and staff, it must get approval from the ministers of finance and ITI. It must also get approval for any changes to these standards once made.

(Subjugation to Ministerial Ordinances)

Article 49. Any matters relating to the financial and accounting activities relative to items not stipulated in the provisions of this law will be covered in ordinances from the Ministries of Finance and ITI.

Chapter 6. Supervision

(Supervision)

Article 50. The fund will be supervised by the ministers of finance and ITI.

2. In the performance of the functions of this law, if the ministers of finance and ITI deem it to be necessary, they have the supervisory right to issue necessary orders to the fund.

(Reports and Inspections)

Article 51. When they deem it to be necessary in order to fulfill the functions of this law the ministers of finance and ITI can direct the fund to report on the condition of its business and its assets or they may have their employees enter the offices of the fund and inspect operations, the status of its assets and/or ledgers and other documents.

2. When the ministers of finance and ITI deem it necessary in order to fulfill the functions of this law, they can cause those to whom the fund has consigned work (hereinafter called "consignees") to report on the details of the work consigned to them or may have their employees enter the offices of the consignees and inspect the status of consigned business, the ledgers and other documents related to the consigned work.

3. The personnel who, in accordance with the preceding two paragraphs, conduct on-site inspections must carry identification as to their status and must show such identification to concerned persons.

4. The authority of the on-site inspections conducted in accordance with provisions of paragraphs 1 or 2 should not be interpreted as a criminal investigation.

Chapter 7. Supplementary Provisions

(Roster of Investors)

Article 52. The fund must maintain a roster of investors.

2. The investors' roster must include the following with regard to each investor.

(1) Personal or company names and addresses.

(2) The date of payment into the fund or date investor received his shares.

(3) Amount of investment or amount of shares receivable by the investor (hereinafter referred to as "investment account").

3. Investors may ask to read the investors roster.

(Dissolution)

Article 53. In the event of its dissolution, the fund, following the settlement of its outstanding debts, must distribute its remaining assets to the investors in amounts proportional to their investment amounts.

2. The amount distributable to the various investors in accordance with the provisions of the preceding paragraph shall not exceed their respective investment amounts.

3. If there is a surplus after the distribution of surpluses has been made in accordance with paragraph 1, the remainder shall revert to the national treasury.

4. Any matters relative to the dissolution of the fund in addition to the provisions contained in the preceding paragraph 3 shall be determined under separate legislation.

(Consultation With the Competent Minister)

Article 54. The ministers of finance and ITI must confer with the competent ministers in the following instances (excluding the ministers of finance and ITI).

(1) When approval under provisions of article 41 paragraph 1 is contemplated.

(2) When approval under article 43 is contemplated.

Section IV. Miscellaneous Provisions

(Collection of Reports)

Article 55. In order to promote the provisions of Sections I and II, the competent minister, to the extent necessary, can, under provisions of ministerial ordinances, direct enterprisers affiliated with /designated industries/ to provide reports on the status of their businesses and condition of their ledgers.

(Opinions Offered by Prefectural Governors)

Article 56. Prefectural governors, when they determine that the disposal of facilities or /mergers of businesses/ or other actions in accordance with the provisions of the /basic structural improvement plan adversely affect the economy of their prefectures or have the potential to do so, can voice their opinions to the competent minister.

(Liaison and Cooperation)

Article 57. The competent minister and the minister of labor must conduct close liaison with each other and cooperate with respect to matters concerning employment of workers in /designated industries/ when promoting the provisions of Section II.

(The Competent Ministers and Other Matters)

Article 58. Insofar as this law is concerned, the competent minister is the minister responsible for the concerned /designated industry/. However, with respect to industries covered under article 2 paragraphs 2 through 4, the competent minister shall be the minister in charge of the concerned manufacturing industries.

2. Insofar as this law is concerned the competent ministerial ordinance shall be issued by the competent minister.

Section V. Penal Regulations

Article 59. When an action impinges on any one of the following, the officer or staff of the fund or consignees who cause the illegal action shall be subject to a penalty of not more than 1 million yen.

(1) When the report stipulated in article 51 paragraph 1 is not made, or a false report is made, or, the inspection conducted under the provisions of the same paragraph are rejected, or obstructed or evaded.

(2) When the report stipulated in article 51 paragraph 2 is not made, or a false report is made or the inspection conducted under the provisions of the same paragraph is rejected, or obstructed or evaded.

Article 60. If the report provided for in article 55 is not made or a false report is made, a fine of not more than 100,000 yen shall be imposed.

Article 61. If the notification provided for in article 8 is not made or a false notification is made, a fine of not more than 100,000 yen shall be imposed.

Article 62. When a person representing a juridical body, a juridical person or another person takes an illegal action in the context of the preceding two articles, in addition to the perpetrator of the illegal action, being penalized the juridical body or person shall also be liable on all counts as well.

Article 63. When an illegal action falls into one of the categories below, the officer of the fund conducting the illegal action shall be assessed a non-penal fine of not more than 100,000 yen.

(1) When approval or recognition required to be obtained from the Ministries of Finance and ITI under the provisions of Section III is not obtained.

(2) When registration in accordance with government ordinances as stipulated in article 20 paragraph 1 is neglected.

(3) When business other than business stipulated in article 39 paragraph 1 is undertaken.

(4) When surplus business funds are used in violation of provisions of article 47.

(5) When orders of the ministers of finance and ITI as provided for in article 50 paragraph 1 are violated.

Article 64. Persons violating the provisions of article 19 paragraph 2 shall be assessed a nonpenal fine of not more than 50,000 yen.

Supplemental Provisions

(Summary)

(Effective date of implementation)

Article 1. This law will be effective from the date of promulgation.

(Abolition of this law)

Article 2. This law will be abolished before 30 June 1988.

(Interim measures)

Article 3. When this law takes effect, with respect to anyone already using the words "designated depressed industry trust fund," the provisions of article 19 paragraph 2 shall not apply for a period of 6 months after this law comes into effect.

Article 4. The first fiscal year of the fund, regardless of the provisions of article 42, shall be from the date the fund begins operation to 31 March of the following year.

Article 5. With respect to the budget and operations plan for the first fiscal year as well as the financial plan, the portion of article 43 which states "before the start of the concerned fiscal year" shall be "without delay after the establishment of the fund."

(Funding by the Japan Development Bank)

Article 6. The Japan Development Bank, regardless of the provisions of article 18 paragraph 1, (Law No 108, 1951) of the Japan Development Bank Law, can invest in the fund after obtaining approval of the minister of finance.

2. When in accordance with the provisions of the preceding paragraph, the Japan Development Bank invests in the fund, provisions of article 18 sub 2 paragraph 2 and article 51 Nos 2 and 4 of the Japan Development Bank Law which read "investment" shall be changed to read "investment and /temporary measures law for structural improvement of designated industries/ (hereinafter called "structural improvement law") supplemental provisions, article 6 paragraph 1 shall apply, and in the same law, article 51 No 2 where it states "in such cases" shall be changed to "in such cases and /structural improvement law/ miscellaneous provisions, article 6 paragraph 1 wherein the approvals of the ministers of finance and ITI must be obtained" and No 4 in the same article which reads "stipulated business" shall be "stipulated business and /structural improvement law/ miscellaneous provisions, article 6 paragraph 1 shall apply.

(Reference)

Legal Supplements to Partial Revision of Temporary Measures Law for Structural Improvement of Designated Industries

(Summary)

(Effective Date)

Article 1. This law shall be effective from the date of promulgation.

(Interim Measures)

Article 2. When this law becomes effective, the revised Law for Temporary Measures for Structural Improvement of Designated Industries (hereinafter "new law") which provides in article 2 paragraph 1 for designated industries, which, before revision of the Law on Temporary Measures for Stabilization of Designated Depressed Industries (hereinafter "old law") which defined designated depressed industries in article 2 paragraph 1 (hereinafter, "continuing designated industries"), the application of article 3 paragraph 1 of the new law shall be changed from "when there is a designation in accordance with the provisions of the paragraph 1 of the preceding article, each industry will without delay" to "within 10 days from the date of implementation of this law each continuing designated industry shall."

2. By changing the wording in accordance with the preceding paragraph, the application of law article 3 paragraph 1 of the new law will provide for the establishment of the basic structural improvement plan and until it is announced in accordance with the provisions of paragraph 7 of the same article, the effectiveness of the old law shall be intact.

3. Actions for disposal and applications and joint actions underway at the time the new law comes into effect and resulting from applicability of the old law shall, until 30 May 1983, be considered to have been undertaken under the provisions of the new law.

Article 3. When this law is enacted, the industries designated as depressed designated industries under the provisions of article 2 paragraph 1 of the old law but which were not designated as continuing designated industries shall be treated as such until 30 June 1983.

Article 4. With regard to those who have the words "designated industries trust fund" in their activities at the time this law goes into effect, the provisions of article 19 paragraph 2 of the new law shall not apply for 6 months after the date the new law goes into effect.

Article 5. With regard to penal applications of article 3 of supplementary provisions, those actions which are clearly deemed to have occurred prior to the effective date of this law shall be administered under the provisions of the old law.

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Sept. 21, 1983